“Pidilite Industries Limited Q4 FY 2013 Earnings Conference Call”

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Ladies and gentlemen good day and welcome to the Pidilite Industries’ Q4 & FY13 Earnings Conference Call hosted by IIFL Capital. As a reminder all participants’ line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. If you should need assistance during this Conference call please signal an operator by pressing * followed by 0 on your Touchtone phone. Please note that this conference is being recorded. I would now like to handover the conference to Mr. J. Radhakrishnan from IIFL Capital. Thank you and over to you, sir.

Good afternoon ladies and gentlemen. On behalf of IIFL Institutional Equities I would like to welcome you all for fourth 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 opening remarks after which we will move on to the Q&A session. Over to you, sir.

Good afternoon everybody and thank you for joining the fourth quarter earnings call for Pidilite Industries. I will first take you through the performance for the quarter and I will start with the consolidated performance. So consolidated net sales grew by 16.5% over the same quarter last year and earnings before interest tax depreciation and amortization and before exceptional items at Rs. 1,405 million were up by 36% over the same period last year and profit before tax was up by 42.8%. Standalone net sales for the quarter grew by 16.6% to touch Rs. 7,554 million, material cost as a percentage to sales was lower than the previous quarter and 110 basis points lower than last year. The increases that we see in other expenses are mainly around variable operating manufacturing cost largely to cater to the higher volumes as well as inflation in items like power, fuel as well as labour. Our non-operating income at Rs. 235 million was higher than last year by 55% largely a function of higher income from the treasury investments that we have. EBITDA prior to exceptional items at Rs. 1,483 million were 33.6% above the same period last year.

As we had reported earlier all our FCCB liability had been extinguished in the previous quarter and that has helped to reduce the finance cost for the current quarter. Details of the exceptional items have been covered in the notes to the quarterly results but largely are of two items one is a provision that we have made in our books towards the carrying value of the investments in the Brazilian subsidiary and this provision of Rs. 53.1 million was made based on an independent valuation of the investments however this has been more than offset by Rs. 106.8 million gain on pre-payment of sales tax deferred liability as you know the company has surplus cash and we use that cash to pay the sales tax liability in advance and thereby get some capital receipt.

The profit before tax was up by 49% and profit after tax is up by nearly 40% over the same period last year. The tax provision for the quarter looks to be a bit higher when compared to
the same period last year but that is more a phasing of the tax provisions. If you look at the tax provision last year for the first 9 months it was around 25% to 26% as a percentage of PBT whereas in the fourth quarter it came down to 21% because we did a much closer scrutiny of our tax liability whereas in the current year the tax provision has been done more systematically and it has remained at around 25% to 26% throughout the full year. So while on an year to year basis there is not much change on a quarter-to-quarter basis the provision for the current year looks to have increased substantially. The board has also recommended a dividend of Rs. 2.60 per equity share for the financial year 2012-13 as compared to Rs. 1.90 per equity share paid last year. The payout ratio would be 33.8% in line with the payout ratio of last year.

I will now just look at the segmental performance. The consumer run bazaar segment revenue grew by 17.6% and because of the benefit of lower input cost the segment profit grew by 41.2%. In the case of industrial products the segment revenue grew by 13.6% which was higher than the growth of the first 9 months and it took the full year growth of that segment to double digits to 10.6% and growth in the quarter was lead by strong growth in exports. The segment profit for the quarter grew faster than the top-line growth again because of lower material cost. However because in the first 9 months margins in the industrial segment had been impacted the full year profitability measured as PBIT to sales for the industrial products segment has come down form 12.5% to 11.4%.

I will now comment upon the performance of our overseas subsidiaries. The sales growth in constant currency terms was 5.7% however because of a favourable translation impact the reported numbers show a growth of 18.2% and the translation impact has been favourable because of a weaker rupee to a dollar as compared to last year. And for the full year sales growth in constant currency terms was 6.6% whereas again because of favourable translation impact the reported numbers are in double digits. I will now cover the performance highlights of some of the geographies in our overseas subsidiaries. The North American business had modest growth in the quarter with the automotive after market business growing by 2.5% and the student art material business grew by 5.5%. Margins were impacted here because of higher input costs and these higher input costs impact off set the gain from the higher sales. For the full year sales of North American businesses grew by 10% with both the businesses recording growth close to that number. The performance in the South American business namely Brazil remained under pressure. Sales growths in the quarter was about 0.7% however material costs have significantly fallen in Brazil and were 400 basis points lower than the third quarter and with SG&A costs having been controlled and in fact were lower than last year. The loss in Brazil at an EBITDA level was nearly half of last year however in the case of the Brazilian subsidiary we have during the quarter taken several exceptional provisions this is a review of the balance sheet of the subsidiary. One major exceptional provision that we have done is the residual goodwill on the books of the subsidiary we have impaired about 30% of
that goodwill and we have made a provision of Rs. 93 million on that account which has been shown as an exceptional item in the results.

The performance in the businesses in Middle East and Africa was impacted largely because of the political disturbances in Egypt as a result same growth was 7.5% however the growth in the first 9 months was very strong and therefore the business in Egypt for the year grew by 25% and losses were significantly reduced. Our businesses in South and Southeast Asia performed well with sales growth of 44% in the quarter lead by strong performance in Thailand as well as in Bangladesh. The performance of Bangladesh was also helped by the commencement of trading businesses which we started in December last year and for the full year in South and Southeast Asia our sales have grown by 38% with nearly doubling of the EBITDA. However if one were to look at the published results and compute the performance of the overseas subsidiaries we would find that losses have significantly increased and losses as reported for the current year are Rs. 440 million as compared to Rs. 254 million last year however this is largely made up of exceptional items which are all one off in nature and they have been done to make the balance sheet healthier so in Brazil we have had exceptional items of Rs. 140 million. Rs. 93 million was the impairment of goodwill and there were some tax liabilities which we have provided for about Rs. 46 million. Then in the US businesses we have had an exceptional item of about Rs. 25 million where the biggest customer of the Sargent Art business namely school specialities has filed for bankruptcy and as a matter of prudent all our receivables from that customer we have made a provision in the quarter and I would have mentioned in one of my earlier calls that one of – In Thailand we had two manufacturing locations, one we had shutdown so as to rationalise the cost. So the one time closure cost of that manufacturing location have been around Rs. 12 million which also we have classified as exceptional items. So if you adjust for that then overall performance would be for the year similar to what it was in the previous year.

That is all I had to explain the performance for the quarter. Happy to take questions.

Moderator

Thank you very much, sir. Participants we will now begin with the Question & Answer Session. We have the first question from the line of Hemang Gandhi from Edelweiss Securities. Please go ahead.

Hemang Gandhi

Sir, my question is on very strong growth in South Asia you pointed to Thailand and Bangladesh, so if you could give a small details of sustainability of both of this plus especially Bangladesh commencement of trading how much are you looking at FY14 for both these countries in terms of sale?

Sandeep Batra

We do not really share specific numbers around the future but both these businesses are still I would say fairly particularly the one in Bangladesh fairly small in terms of overall size, so while the trading business has added to some amount of the growth because that have been
reflected for a four month period only but I think there is enough opportunity to in both Thailand and Bangladesh to maintain the kind of growth that we have seen. So they are fairly small businesses in their in individual capacity and have enough room to grow at the current rate of growth.

Hemang Gandhi

Sir, why I am asking this is I understand the impact of small base but in Bangladesh most other consumer companies are seeing a fairly tough times. I understand the base effect but will it be fair to say that margins will be a bit low because it is trading business in Bangladesh?

Sandeep Batra

Yes, the trading part of it margins will be certainly lower than the manufacturing part of the business that goes without saying and of course if the political situation in Bangladesh remains uncertain as it was in the first quarter that of course that is not something that we can factor in while we plan our targets but if business is as usual then there is opportunity to build the business there.

Hemang Gandhi

Sir, coming to Brazil where you have pointed to the provisioning if you could explain what was the reason for the impairment of the goodwill and the losses have halved in FY13 so are we on course to kind of turning breakeven in FY14?

Sandeep Batra

Yes, I think the specifically in Brazil there was the goodwill which had a arisen when we had acquired that business and we were as a matter of prudence amortizing that goodwill over a 10 year period, so 50% of that good will has already bee amortized but the local accounting standards require us to test the goodwill for impairment every year during the course of the audit. So this year when we did the test for impairment given our last couple of year’s performance we moderated our growth assumption for the purposes of doing the impairment test and that lead to a gap of about Rs. 93 million between the goodwill that we were carrying and the goodwill that was being justified by the future cash flows. So as a matter of complying with the local accounting standards we did an impairment provision. Otherwise we would have amortized it over the remaining 5 years, so it is just in a sense bringing forward future charge in to the current year.

Hemang Gandhi

Sir, my last question is on the Indian business so especially the new segments of the branded business wherein you are putting in more focus if you could talk about that how the full year has been and specially construction chemicals we are seeing some of the paint companies either enter or upping the ante, so how do you envisage the competition from paint companies there because they would have I think a bit of more advantage because they provide both segment of the solution, so water proofing and painting so some insights in to that?

Sandeep Batra

As far as performance is concerned well, we do not comment on specific sub-segment wise performance and if you look at the overall landscape if you look some of the results of similar companies or companies which compete in the same space they had seen significant
slowdown in the fourth quarter so we also have since slowing down of the growth and if you look at our overall sales growth of 16.6% for the quarter that is slower than the first 9 months. So that there is an impact but it would be too premature to say whether there is any long term circular impact of any the other economic events that people talk about. Specifically about your question on how paint companies are competitively placed in construction chemicals well, I mean there are two sides of the coin I do not think any company has any advantage in construction chemicals by virtue of another product line I think we have a compelling product range and a compelling service offering to the customer and we believe we will be charting our own course as far as growth in that segment is concerned irrespective of what is happening with some other companies expanding in to this segment.

Hemang Gandhi
Will that be because penetration is quite low of the branded products in this?

Sandeep Batra
Yes, penetration certainly is very low I think what line of business we are targeting may not be identical to what some other companies are targeting, so there is enough opportunity in that category.

Moderator
Thank you. We have the next question from the line of Nimit Shah from ICICI Securities. Please go ahead.

Nimit Shah
Sir, I just wanted to know the market share which Fevicol and Dr Fixit would be having currently?

Sandeep Batra
We do not discuss market share numbers on these calls. I am sorry but I mean suffice to say that Fevicol is certainly the market leader in the premium wise glue category and in Dr Fixit we would be the market leaders in the retail end of construction chemicals.

Nimit Shah
And sir, if you can talk about the penetration level about the branded adhesives in the construction waterproofing chemical market in India, what would be the penetration level for these products as far as the organized?

Sandeep Batra
We do not have a measure in that sense of penetration levels but if you were to look at may be comparing it with what some developed countries have in terms of usage we are far away I do not have a number to share with you but I think in terms of the gap with what some of the developing or developed countries will be this is a big opportunity.

Nimit Shah
In terms of our raw material cost breakup the percentage of the cost between VAM and the packaging material that two components would be how much of your raw material cost and how do you see the VAM prices moving ahead and the benefit accruing to Pidilite?
Sandeep Batra: I think between VAM and packaging items the total component will be upwards of 30%, between 30% and 35% because packaging is a very key element of our raw material cost so this will be 30% to 35% of the material cost.

Nimit Shah: And balance would be?

Sandeep Batra: Balance would be other chemicals that we have. We have a range of chemicals that we use and going forward VAM prices in dollar terms have been fairly stable around the $1,000 mark give or take $50 but what would certainly impact would be the exchange rate. So if rupee which has depreciated in the last few weeks if that continues to depreciate then that could have an impact but at least from whatever we hear in the market we are not seeing VAM prices increasing significantly.

Nimit Shah: And sir, last question would be what could be our capacity utilization currently and the CAPEX outlook going ahead?

Sandeep Batra: Our capacity utilization is a very difficult number to give you because we have several manufacturing locations and several product categories suffice to say that we internally do a fairly comprehensive review of our capacity on a regular basis and we would take whatever action is required to augment capacity. Our average CAPEX during the year is between around Rs. 125 crores to Rs. 150 crores which is good enough for sustaining the kind of volume growth that we have been seeing.

Nimit Shah: And this is mainly in to new products?

Sandeep Batra: No, not necessarily new products it would be debottlenecking the existing facilities, putting up may be new packaging lines if required may be a new unit itself.

Nimit Shah: For the existing product?

Sandeep Batra: Existing, new everything it is all consolidated.

Moderator: Thank you. We have the next question from the line of Prashant Poddar from Invest Co Hong Kong. Please go ahead.

Prashant Poddar: Just to begin with, I do not if I miss this one on but the value serious growth that is there in the consumer business which is around 17% what is the breakup between realisation and sales?

Sandeep Batra: Volume growth has been about lower double digits so about 10.5% and the remaining has been priced.
Prashant Poddar

Going in to the next year do you think that does it look likely at this stage that there would be some pricing lead increases next year as well?

Sandeep Batra

It would depend the product category but if you look at an overall industry level we are not seeing a very significant inflation in fact you would have seen that our material cost to sales in the fourth quarter has come down we are not witnessing any major cost inflation across the board there could be a few individual product categories that may be happening but having said that I think the key determinant of pricing for us is always been cost lead inflation and one variable which certainly we are watching very closely is how the currency behaves because if the rupee continues to weaken that would have an impact on our input cost.

Prashant Poddar

How is the demand environment in generally you talked about some slow down in this quarter which is some slowdown but not really any defined slow down compared to what we see in some other consumer discretionary category?

Sandeep Batra

The demand as far as the industrial part of our business is concerned has remained soft even though fourth quarter growth rates were better than the first 9 months but that probably could be a base effect it could be bunching up of may be some export sale. But overall that category does seem to be having a head wind and growth has been much slower than our historical growth rates. Similarly even in the consumer and bazaar segment our growth in the quarter sale it was only 17% whereas the first 9 months’ growth has been above 20%. So there is some amount of lower demand that we have seen in the fourth quarter. Now how does it sustain in to this new fiscal is a bit premature to say I think we will have to wait for a few more months to get some clarity on how the demand outlook is.

Prashant Poddar

What are the markers if you were to really look at next year, what are the markers which will give you some indication about the growth, is it monsoon that you are looking at or?

Sandeep Batra

I mean overall economic growth in the country certainly has a bearing even thought we have not established correlation between the two but we operate in India, bulk of our sales are in India and therefore how the GDP in India plays out as an important bearing. We have seen in the past that whenever GDP growth rates have been soft consumers have shied away from making discretionary purchases or making discretionary expense call. So it could be about refurbishing their home or refurbishing their office they may take consumers have in the past taken a call to defer these decisions whenever the economic outlook has been a bit soft. So a situation like that cannot be ruled out. If you look at comparable sectors say sectors like paint or sectors like cement we have seen sales growth in the fourth quarter come off significantly as compared to the first 9 months. Most of these segments have reported single digit growth. So therefore the overall environment certainly will suggest that there is softening in demand but as I have maintained in our case it is not so much the market but lot of the demand that is created or generated by us with our differentiated and innovative products. But at the same
time one has to be cognizant of the environment you operate and we will have to watch out for how the GDP numbers play out and monsoon is one key element of the overall GDP growth.

**Prashant Poddar**

Sir, on the margin itself the margin expansion in this quarter on a year-on-year basis because there are seasonailities in your margin numbers given that the industrial as a proportion is higher in this quarter compared to others. So I mean would you say that the margin expansion which was there in this quarter would kind of continue in the next year as well if I were to look at segmental gross margins?

**Sandeep Batra**

Yes, to some extent because the correction that has happened or the reduction in the input cost that certainly would carry forward in to the current year say except for the what happens on the rupee-dollar front which I mentioned earlier.

**Prashant Poddar**

Sir, just one book keeping question on tax rates. What should be the number that we should be looking at for next two years?

**Sandeep Batra**

I think for next year for the current year which is FY14 same rate as the current year, full year rate which is what would be relevant and FY15 rates will increase because some of our units in Himachal would have completed the 10 year tax holiday period so those will increase.

**Prashant Poddar**

So would it go to 30%?

**Sandeep Batra**

No, not 30% but it will increase from the current rates. We have not yet worked out the specific number because I cannot share with you.

**Prashant Poddar**

Just one last question on the current investments and cash equivalents, are these both items I mean obviously cash and cash equivalent is cash but current investments would it also be largely cash related?

**Sandeep Batra**

Our investments would largely be in fixed deposit or in debt funds in mutual fund.

**Prashant Poddar**

So this current investment as well is cash equivalent only in that sense?

**Sandeep Batra**

Yes.

**Prashant Poddar**

So overall of Rs. 430 crores to Rs. 440 crores or so?

**Sandeep Batra**

Yes.

**Prashant Poddar**

One last thing on Pidilite’s Southeast Asia you said that you have not considered earlier for consolidation as it is under liquidation, any potential loss on account of that we should expect over next two quarters?
Sandeep Batra  No, it was a business which we had started several years back but we discontinued it. We wanted to actually use that company for doing trading in that geography but that venture never materialised. So we had stopped business about 3 or 4 years back and that company was classified as dormant, there was no business. So there are no losses there.

Prashant Poddar  Sir, one last thing on this sorry on elastomer project, any decision?

Sandeep Batra  No, no final decision. I think the board has given a few options before the company to look at which I am not at the moment in a position to share.

Prashant Poddar  And even at this point it does not make sense commercial sense to commercialise that operation?

Sandeep Batra  No, I do not think the decision was this is commercial reason I think the techno commercial exercise has demonstrated that the business is viable, the project is viable I think it is just the decision on how that project has to be executed that is something that is awaiting a final clearance from the board.

Prashant Poddar  So any timelines when we can hear about that?

Sandeep Batra  No, no specific timelines but yes may be in the next quarter or so some clarity will emerge.

Moderator  Thank you. We have the next question from the line of Amit Purohit from Dolat Capital. Please go ahead.

Amit Purohit  Two questions, one is on the industrial margins we saw a sequential improvement in the industrial business. What has lead to this, is it basically with the raw material cost or pricing part or the growth itself?

Sandeep Batra  No, it largely been easing of raw material prices largely, which has flown in to the bottom-line.

Amit Purohit  And this trend should likely to continue right in terms of improvement because we have a base which is lower for us?

Sandeep Batra  Yes, so I think the margins that we saw in this quarter certainly can we would like to see them getting maintained in the coming year.

Amit Purohit  And probably improve from this level or you would be?

Sandeep Batra  That is difficult to say.
Amit Purohit: And sir, just one on the annual numbers just needed what is the break up of consumer level just a broad percentage wise pickup will also be helpful for standalone numbers for us?

Sandeep Batra: It would not have changed very drastically from last year but in our annual report we will have the breakup. I do not really have the numbers in front of me to give you specifically but the annual report will have the numbers but I do not think the split has changed very significantly.

Amit Purohit: And any this projections that you made that fourth quarter some kind of a slowdown and all would it be something to do with the inventory also because I mean some correction at the dealer level at the year end happens probably 9 months or so?

Sandeep Batra: No, that could have happened last year also. So, on a quarter-on-quarter basis that would not be the reason. But there is feedback that we get from some sections of the trade and yes demand is not what it was in the beginning of the year or before that.

Amit Purohit: And sir, lastly on the international business we have not got any press release which gives the numbers of this North American, Brazil and?

Sandeep Batra: It will be there in our investor update that should be coming up on our website. So we could have these breakdowns.

Moderator: Thank you. We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir, I just missed out on your Brazilian subsidiary’s annual numbers, headline growth number?

Sandeep Batra: Overall growth in the Brazilian subsidiary margin was similar coming to growth was flat, so sales were similar to last year however the sales growth in the second half has been better than the first half. So in the first half our sales growth has declined and for the year we have kind of ended up at same level of sales. So whatever sales decline happened got made up in the second half and in the second half again we have seen expansion in margins. So while the subsidiary has made losses, losses in the second half have been substantially lower than the first half.

Tejas Shah: In few previous calls you have mentioned that the management has taken some steps to improve operations in Brazil, so whatever we have seen in second half of this year are you seeing any attraction or sustainability of those improvements?

Sandeep Batra: Yes, I think the changes that we did in terms of manpower locally in Brazil those were I think implemented in July, August of last year. So they have yielded results in the second half of the year and the change at the top which was about having a CEO for our entire business in Americas that was done in December. So we have not seen the full impact of that change even
in the quarter and as we roll out in the current year that impact should also be visible. So initial signs of the strengthening that we have done positive and visible.

Tejas Shah

And sir, we noticed very sharp uptick in your gross margins for the quarter on sequential basis also, so if we look at rupee-dollar scenario it has not changed much in fact it has not changed favourably on Q-o-Q basis and you have mentioned that price increase was also not in double digits. So is there any sharp correction in raw material prices in dollar terms as such?

Sandeep Batra

No, I think there has been no sharp correction in the input cost and I think is the currency has been stable and when the currency is volatile that is when it impacts more. So currency in the quarter has been stable and input cost in dollar terms has certainly come down so that has had a positive effect.

Tejas Shah

And in rupee terms also?

Sandeep Batra

Yes, in rupee terms also.

Tejas Shah

What would be the current VAM prices?

Sandeep Batra

They are around $1,000.

Tejas Shah

That is not stable for last three quarters now?

Sandeep Batra

Yeah, it has been between Rs. 950, Rs. 970, Rs. 1,000, Rs. 1,050 in that range it has been there. So it is not specific, it is not fixed at Rs. 1,000 but it is between Rs. 950 and Rs. 1,050.

Tejas Shah

And sir, lastly if you can share some thoughts on the demand outlook in your industrial business because last time you are saying that Europe and demand from international market was not helping much?

Sandeep Batra

I think that outlook or that situation has not changed. I think the demand outlook is not very bullish, it is not very different from what it was earlier. So what we saw last year was a fairly significant correction in exports in the first half of the year. So hopefully that is something that is probably something of the past. So with that base correction having happened we do not anticipate that that pressure will remain throughout this year.

Moderator

Thank you. We have the next question from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.

Sanjay Satpathy

Two things I would like to understand from you that in the fourth quarter you have said that the growth rate is showing some sign of slowing down but at the same time lot of other building material companies like this tile manufacturers and some plastic pipe manufacturers,
etc., they have continued to show very healthy volume growth and revenue growth. I just would like to understand that in VAM how do you read this relative to the other building material company and the second one is that how the product development initiative, etc., is going to help you in the coming year?

Sandeep Batra

We have not compared our results or our sales growth with the growth being reported by the tile or the building material companies, so I cannot comment on that. Certainly one industry whose growth we track is cement and that of course has been quite soft and I understand that all cement is not necessarily which gets used for building. There is a lot of cement used in other activities but that growth has remained quite soft. And as far as new product development is concerned certainly that has been the driver for growth in the construction chemicals business it is the youngest business that we have in that sense and that process is a continuous process of identifying the needs of the consumer and then having products which address those things. So that is a continuous process and most of the growth in this category would be driven by such product introductions.

Sanjay Satpathy

And sir, one more thing on this construction chemical we saw that in the previous years the construction chemical was growing much faster than your Fevicol brand but it looks like FY13 the growth rate has been more or less similar across these categories because you just mentioned that your mix has remained more or less similar, so why was this can you just explain that sir?

Sandeep Batra

I think in the construction chemical segment we have two parts of the business, one is the retail part of the business which is in fact been the vertical that we are building and which is for repair and waterproofing. And then we have another segment which provides to construction chemicals to large projects or even industries or even infrastructure projects. So the biggest impact that we have seen last year has been in the industry or the project part of the business. The retail part also would have been impacted but not as severally as the impact has been in projects. So the overall portfolio of construction chemicals certainly would have not grown at the kind of growth rates that we have been seeing in the earlier year but the bigger impact has been in the project part of the business. The retail part certainly I think would be amongst the fastest growing categories for us even last year.

Sanjay Satpathy

And lastly sir I would like to check with you that apart from the obviously and it is like there is something listed in the construction chemical business and also this tile adhesives, etc., are you seeing any kind of aggression by companies like Huntsman or any other foreign players in India?

Sandeep Batra

No, we are not seeing any different activity by these companies. I mean some of the companies that you have mentioned has announced their plans to enter in to construction...
chemical so that we know and we do keep track of this but other than that companies like Huntsman I at least I have not seen any visible step up in their plans.

**Moderator**

Thank you. We have the next question from the line of Gagan Tareja from Comgest India. Please go ahead.

**Gagan Tareja**

Sir, is it possible to be able to understand the impact of the price increases that you might have taken on your margin so to say I mean what part of the margin improvements could be attributed to the price increase and what part could be attributed to purely in the material cost coming down?

**Sandeep Batra**

No, we would not have that analysis as to how the expansion is because of cost or price, no we do not isolated these impacts.

**Gagan Tareja**

I mean indirectly would it have been possible to understand on an average for you the VAM and other chemical prices how much would have appreciated in FY13 vis-à-vis FY12 appreciated or come down?

**Sandeep Batra**

VAM has been largely same I would say rupee to rupee and it has not changed if you look at the full year the difference in VAM will not be very significant.

**Gagan Tareja**

So would it then be logical to infer that pretty substantial chunk of the margin improvement is lead by the price increases that you had?

**Sandeep Batra**

We do not look at our margins in that disaggregate manner that you are trying to analyze. We look at it at the net level so whatever cost increases happen we would like to pass them on by way of price increases. We do have lag between the cost and the price increase. So that may call some amount of volatility and the margins is concerned but we do not track on our constant input cost or constant selling price basically.

**Gagan Tareja**

My other question is I mean you have indicated that volume growth has been in the order of 10.5% the rest being attributed to ASPs. Now given the raw material price scenario is more or less soft and the inflation is not really headed upwards, in such a scenario your growth in FY14 should be primarily volume lead and not have the kind of contribution that you had in FY13 by prices in which case would there be a material difference in growth or?

**Sandeep Batra**

No, that your hypothesis is correct in the sense that the if the input cost inflation in FY14 which currently appears to be lower than last year then certainly there would not be any reason or room for us to take price increases. So that extent yes whatever component of the growth this year is made up of price increase that could be lower. That hypothesis is absolutely correct but it is too premature to say how the rest of the year will play out. We are only in the month of May. Yeah, hypothesis is correct.
Moderator

Thank you. We have the next question from the line of Anirudh Joshi from Anand Rathi. Please go ahead.

Anirudh Joshi

Just wanted to check regarding the VAM prices, so I missed that part. What was the VAM price let us say average price for the quarter and what is the current price?

Sandeep Batra

It is all around the $1,000 mark, give or take $30 to $40 here or there but it is around $1,000 mark.

Anirudh Joshi

For the quarter and currently also?

Sandeep Batra

Yeah, currently it is of that range.

Anirudh Joshi

What was the same rate let us last year same quarter?

Sandeep Batra

Last same quarter I do not remember the Dollar rate but in Rupee terms it was similar. I do not remember the Dollar number but the Rupee price perhaps the same.

Anirudh Joshi

So Rupee price it has remained the same?

Sandeep Batra

Yes, it has remained the same.

Anirudh Joshi

In terms of new product launches what are the new product launch already in this quarter or even past two, three quarters we have seen?

Sandeep Batra

I do not remember individual product names. I think our annual report which will come out another four or five weeks we do mention all our new products in that. Some of the major ones in that, so I think you will have to wait till that time. I do not remember the list of new products.

Anirudh Joshi

In terms of volume growth actually is it possible for you to bifurcate the growth in terms of growth in premium products as well as means compared to basic products if the premium products are growing well then the volume growth may not reflect that but still it is a change in the revenue mix that is basically driving the revenue growth. So would you like to say something?

Sandeep Batra

We do not have that split in to our products but then most of our products are premium in the categories in which we operate them. So therefore to answer your question would be very difficult but in any case we do not have that information that you are seeking.

Anirudh Joshi

Sir, my question was something actually last year may be 100 case of Fevicol was sold and this year let us say 100 cases of Dr Fixit is sold it, so there will be definitely difference in the
revenues and that is not pure volume growth or price hike or price lead growth. So it is basically a revenue mix lead growth?

Sandeep Batra

They are not comparable, so you are not comparing apple-to-apple. Fevicol is for adhesives. So when I tell you a growth rate I have converted everything in to a common denominator and then given the growth numbers. So individual if you look at rupees per KG that would be different. And that would be a very difficult number we do not even compute it. We look at growth rates across the various categories that we have rather than growth rate at a national Pidilite level.

Anirudh Joshi

In terms of the distribution network last session probably where do we stand and what was the total retail outlet addition in this year FY13?

Sandeep Batra

Fist of all we do not sell direct to retail.

Anirudh Joshi

No sir, net total direct plus indirect.

Sandeep Batra

No, I do not have that number. We do not track it in that direct.

Moderator

Thank you.

We have the next question from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla

Just on the gross margin front for this particular quarter we have seen the VAM prices are also been on the same level, would it be say for instance if there have been some positive impact of the product mix?

Sandeep Batra

It could be mix, it could be the impact of the selling prices. It could be impact of other inputs that would have fallen. So the expansion is a combination of several factors. So and all of the ones that I mentioned would have contributed in some measure to that.

Ranjit Cirumalla

From the sequential basis this is quite significant jump in the gross margin. So at least when we compare with the third quarter the product mix should have been definitely be positive impact?

Sandeep Batra

I think it would be a combination I really cannot we have not disaggregated that impact across the three or four elements that you are saying. It is a combination, yes.

Ranjit Cirumalla

And the second thing on the – correct me if I am wrong that what we have been saying recently is particularly the TVCs the company has been pushing the Dr Fixit brand earlier we used to see more TVCs on the Fevicol brand, so is it a conscious shift from the other strategy to focus more on the construction chemicals?
Sandeep Batra  
No, I do not think there is a strategy which is to drive construction chemicals at the cost of Fevicol. I think all are business verticals have their own marketing plans which would cover TV advertising at the appropriate times. So it is not one at the cost of the other.

Ranjit Cirumalla  
Hut would it be the next incremental trigger for Pidilite?

Sandeep Batra  
No, construction chemicals has been the driver of growth for the last few years and that is a category that we are seeking to build. Certainly it is no where near as matured as Fevicol is and therefore that category requires much greater investment for demand generation. So certainly the spend in construction chemicals on advertising would be as a percentage to sales much higher than what it would be in the case of Fevicol.

Ranjit Cirumalla  
Do you intents to step up it further?

Sandeep Batra  
Yes, I think we have stepped it up in absolute value terms last year and we certainly would look to maintain that spent and if a particular division requires higher spent yes, that certainly would be considered.

Moderator  
Thank you. We have the next question from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra  
Yeah, two questions from my side. If you can highlight the volumes growth for the year for consumers and industrial segments separately? And second is on the working capital there seems to be build up on the current liability side, much better net generation of cash from working capitals, if you can highlight that is sustainable or is there any kind of one-off that we need to watch out for?

Sandeep Batra  
I think the overall volume growth for the year has been around 11.5% for the full year. We do not share the numbers between consumer and industrial but the difference between volume and value would be by and large similar between the two segments. So 11% and about 7% would have come from pricing. This would be similar across the categories. But I did not get your second question, what did you say?

Aman Batra  
If you look at the current liabilities and the networking capital there seems to be networking capital which has moved positively for us so there is a net cash generation?

Sandeep Batra  
Current liability compared to last year?

Aman Batra  
Yeah. Is there any kind of one-offs which we need to work on?

Sandeep Batra  
No, current liability is Rs. 743 crores compared to Rs. 781 crores last year. I am not clear which number are you looking at?
Aman Batra  I am just clubbing all the current liabilities and provisions all put together, is there any arrangement of debt in the current liabilities as well?

Sandeep Batra  Yeah, there would be. We have 60 crores of debentures which are due in December so they would have got re-classified as short term liabilities,

Moderator  Thank you. We have the next follow up question from the line of Hemang Gandhi from Edelweiss Securities. Please go ahead.

Hemang Gandhi  Sir, two follow up questions. Most consumer company’s share one specific point rural versus the urban split and how distribution scale up is happening for example even paint companies every year do expand their distribution points, some insight in to that if you can share?

Sandeep Batra  No, we do not have a split in that sense of because see our distribution is not direct to retail as may be in the case of paint companies. So we sell to distributors who in turn could be selling to the end retailer, it could be urban, it could be Rurban. So that is difficult to give our sales split. But yes what we can certainly share is that the Rurban arm that we have which is our distribution which directly goes to Rurban, smaller towns, towns which have a population of less than 50,000 there the sales growth has been much faster and that has been the trend now for the past few years. So that sales has grown at twice the rate of the company. So overall sales growth has been 18%, the Rurban part of the business has grown at 35% to 36%.

Hemang Gandhi  And you would attribute that to distribution because or the higher income?

Sandeep Batra  Partly distribution, partly penetrations.

Hemang Gandhi  Sir, my second question is any price cuts we have seen in the last 5 to 7 years because you said raw material index now seems to be lower versus last year. And second is that we seemed to be growing faster than most other consumer companies, paint companies if you see are growing in low single digits, so what are we missing and why we are going much faster, is it because of the innovation, because of distribution which other companies seemed to be missing?

Sandeep Batra  I think why we are growing faster probably will be a function of the product portfolio that we have, the maturity of the products in that product portfolio, so we certainly will be more diversified than may be a company which is only in to paints and therefore some parts of our product portfolio would be going much faster. May be because the penetration levels in that category are less and therefore there is room for improvement and as I have mentioned as earlier lot of our growth comes from new products and new market segments that we create and therefore drive growth. So to that extent it is in a sense independent of what happens in the external economy. So may be some of those segments have done well.
Hemang Gandhi  
And may be price cuts in the past you have taken?

Sandeep Batra  
I think the only time I recall we would have done some price adjustments would have been in 2009 when oil had fallen from $150 to $50 at that time yes some amount of adjustments would have been done on the price front.

Moderator  
Thank you. The next question is from the line of B. Venkatesh from Corporate Database. Please go ahead.

B Venkatesh  
Sir, just I would like to know what are the A&P spends in absolute value in this year and what are they likely to be in the next year?

Sandeep Batra  
Our average A&SP would be about closer to 4% of sale for the year and I think going forward we would like to maintain that kind of spend.

Moderator  
Thank you. Participants, that was the last question. I would now like to hand the floor back to Mr. J. Radhakrishnan for closing comments. Over to you, sir.

J Radhakrishnan  
I would like to thank the management for the time for this conference call and all the participants on this call. Sir, would you like to make any closing comments?

Sandeep Batra  
I just wanted to thank each person on the call for their interest in Pidilite and I wish them very good day. Thank you very much.

Moderator  
Thank you, sir. Ladies and gentlemen on behalf of IIFL Capital that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.