8th August, 2017

The Secretary
BSE Ltd.
Corporate Relationship Dept.,
14th floor, P. J. Tower,
Dalal Street, Fort
Mumbai - 400 001
Stock Code – 500331

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

Dear Sir,

Sub: Transcript of the Earnings Call

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors on 26th July, 2017.

Kindly take the same on your records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

Savithri Parekh
Secretary
Pidilite Industries Limited
Q1 FY18 Earnings Conference Call

July 26, 2017

ANALYST: MR. ANAND SHAH - KOTAK SECURITIES
MANAGEMENT: MR. APURVA PAREKH - EXECUTIVE DIRECTOR - PIDILITE INDUSTRIES LIMITED
Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q1 FY18 Earnings Conference Call, hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Kotak Securities. Thank you and over to you Sir!

Thank you Raymond. Good evening everyone and on behalf of Kotak Institutional Equities, I welcome you all to the Q1 FY18 earnings call for Pidilite Industries. We have with us the senior management of the company represented by Mr. Apurva Parekh, Executive Director, Pidilite Industries. I would now like to hand over the call to Apurva for opening remarks. Thanks and over to you Apurva!

Thank you Anand. Good evening everybody. This quarter saw the announcement of the launch of GST a welcome tax reform for the country. Performance in this quarter was impacted by the short-term challenges of transition to GST largely as a result of destocking by customers in June as well as an upward trend in some key raw material prices. We continue to invest in our brands, people, and manufacturing facilities and we remain positive in the medium term in terms of outlook for the industry. On a standalone basis, gross sales for the quarter declined by 0.2% over the same period last year. This was driven mainly by 0.3% decline in sales of consumer and bazaar products and 0.2% growth in sales of industrial product. Material cost and percentage of sale is higher by approximately 164 basis points as compared to the same quarter last year. EBITDA before non-operating income declined by 20.8%. On a consolidated basis, gross sales declined by 1.3% and EBITDA before non-operating income declined by 18.6%. We can now open the floor for questions.

Sure, thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Avi Mehta from IIFL. Please go ahead.

Sir actually if I look at the input cost, you indicated the input cost has moved up. Could you give us a sense on how have they behaved since the end of the quarter and have we taken any price increase or price actions to offset the impact?
Apurva Parekh: During the first quarter, in some of the products where we had significant increase in raw material, we have taken some price increases in products where it was necessary.

Avi Mehta: So was that already reflected in the quarter’s margins or you took it during the quarter and it is not completely I am just trying to understand that part?

Apurva Parekh: There are two parts to this. One, there was an increase in May in some of our products. However, in some of the products, as we have said, some of our raw material prices have been fairly low for the last couple of years. With some of the products where raw material prices have increased, we have not fully passed it on.

Avi Mehta: If I recollect in the last conference call you highlighted towards already taking a price increase towards the end of the fourth quarter in that conference call, so there has been another round beyond that is what I wanted to just clarify?

Apurva Parekh: If you remember last time, what I said is that we have some products which use synthetic rubber called chloroprene. Now that particular product has seen a significant increase in price over the last six months. So, in that particular product, we had done two rounds of increase - one in Q4 and another price increase during Q1. Also, there were some industrial products that depend on certain monomers where again there was a significant price increase, so depending on the product segment, we had done some price increases in the fourth quarter and some increases in the first quarter but this is not an across-the-board price increase but an increase which is in specific products where there has been significant increase in raw material prices. For example, we have not made any change in the price of our key products like Fevicol or Fevikwik and Fevicol white.

Avi Mehta: I get it. Sir and the second part was you highlight towards customer destocking or consumer end destocking channel destocking that is, could you give us a sense of how much was the channel inventory in terms of days, which has gone by or do you have any number that you could share to get a sense on that?

Apurva Parekh: The reduction in channel inventory both was at the distributor level as well as at the retailer and dealer levels. So we do not have estimate of what is exactly inventory level maintained by dealers and the retailers but there has been significant reduction at their end and also at the end of some industrial customers as well. However, to give you an idea for the first two months, we witnessed higher single-digit growth in both sales value and volume and that got corrected in June-end to almost flat sales.
Avi Mehta: This is very helpful Sir! Perfect Sir! I will come back in the queue. If the channel suggesting that in July there has been a sharp moderation would you believe that is specific and not attributed to a general industry for us or is that something that you could kind of help understand?

Apurva Parekh: Do you mean a sharp moderation in their offtake?

Avi Mehta: Yes Sir!

Apurva Parekh: Compared to June, towards the end of June, there was a significant reduction in purchases and that resulted into destocking by channel partners and retailers and that continued during say the first week of July or so, but thereafter there has been a reasonable pickup from channel partners and trade. However, things will take a little bit more time before they come back to normal, but there has been a reasonable pickup after the first week of July.

Avi Mehta: This is helpful. Thank you very much. I will come back in the queue for further questions.

Moderator: Thank you. The next question is from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Rohit Kadam: Thanks for taking my question. Sir firstly on the gross margin dip of 160 odd dips YOY, Sir how much of this was due to VAM prices and how much of this was due to some of the other inputs?

Apurva Parekh: I will give you an idea of the VAM prices. So at the end of March the weighted average cost of VAM in the fourth quarter of last year was around $720 and during the first quarter, the weighted average cost of VAM was about $920.

Rohit Kadam: Alright I think that explains it and also was there any impact from any promotional schemes you had sort of run to minimize the destocking impact?

Apurva Parekh: We did not run any significant scheme to sort of push the stocks, but we have provided certain amount of money to compensate the distributor for any transition loss that they have subject to certain conditions. If they have incurred a loss on the stocks that they were carrying at the end of the quarter, we would be compensating a part of the cost to our channel partners.

Rohit Kadam: But this would have been accounted in your other expenses in line right?

Apurva Parekh: Yes, it is accounted for in expenses during the quarter.
Rohit Kadam: On the restocking part just wanted to ask you, so do you expect by the end of Q2 to see a complete restock or do we think that some of it will likely spill into the third quarter as well?

Apurva Parekh: It is difficult to estimate. I would say, a good amount of restocking should happen in this quarter, but it is difficult to say whether their inventory level at the end of September would come back to normal level, but certainly they will improve over June-end levels.

Rohit Kadam: Sir just one last question. On Nina and Percept we have seen some recent topline growth 25% in both of these businesses, so any colour on that anything we have changed there?

Apurva Parekh: Yes, once we acquired a majority stake in both these companies, we have been very focused on business development. You know Pidilite has very good quality construction chemicals. We have a very wide range of products so along with Nina and the Percept teams, we have been very focused on doing business development with very large clients and we have won some good orders from some of the commercial institutes, some corporates as well as some of the builders.

Rohit Kadam: Alright Sir that is very helpful. That is it from my side, thank you.

Moderator: Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Thank you for taking my question. Just a couple of things on the excise exemption fee as I understand the excise exemption on these two units have ended last year and because of which excise duty rates have kind of gone up, how do we think about excise duty going forward, are there any new units that are coming up, which will compensate for the excise duty exemption loss or the excise duty will now remain elevated?

Apurva Parekh: So during the last year we commissioned one more plant in Himachal Pradesh, which still has a few years left of excise exemption. In addition, a couple of other plants also have few years remaining, but as far as new plants coming up with excise exemption, there was only one plant where we started operations during the last year.

Chirag Shah: Got it and Sir as far as ad promotion expenses are concerned there was a 40% increase this year. Now I understand there could be timing differences, but is there also a shift up that we are seeing in ad expenses that we will see going forward?

Apurva Parekh: Yes, we expect to spend more on advertising during the current year. By spending more, I mean we will spend more as a percentage of sales during the current year. We do intend to spend more to accelerate sales growth.
Chirag Shah: Got it. That is it from my side for now. I will join the queue for more questions.

Moderator: Thank you. We have the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Thanks for taking my question. I just wanted your thoughts on how we should look at margin now given that these you have clearly seen a sharp uptake on the RM front and to me what seems that you are not taking very aggressive price increases on the adhesives and clearly VAM prices have moved very significantly in the last three to four months, so do you think that we are now entering a period of normalization on the margin front?

Apurva Parekh: As we have said earlier, we may see some deterioration on our gross margin – so compared to what we saw in the last couple of years there may be some deterioration. However, if you look back at what was there four or five years ago, that was more towards the low end of the gross margin. This correction of 100 to 200 basis points is over what we saw in last couple of years only.

Gunjan Prithyani: And then if I move to the EBITDA line you are talking about spending more in terms of on the ad side and in general we have seen the fixed expenses go up because of various investments you are making, so should the EBITDA margin also see a similar compression or you see that there is going to be some operating leverage on this side?

Apurva Parekh: Clearly, there will be some operating leverage. We are also running some initiatives to optimize in our various fixed expenses. However, the EBITDA margin will largely depend on what topline growth that we achieve in the current year. If by spending on advertising, we are able to accelerate the topline growth then it will certainly help achieve better EBITDA margin. So EBITDA margin is not linked only to gross margin, it will very largely depend on the topline growth.

Gunjan Prithyani: But you anticipate almost about 150 to 200 basis points at least some normalization on the gross margin front?

Apurva Parekh: It could happen, but this is very dynamic. Just to give you an idea of how the VAM prices have gone during the quarter of June 2016 also it was 900 Dollars and from 900 Dollars, it fell to 743, 739, and 723, it has again gone up to 900, but this trend is not very uniform, the prices go up and go down, it is something that could happen; it is very difficult to estimate based on the current situation. VAM prices change on a continuous basis.
Gunjan Prithyani: Has there been any change after the quarter close or it is still trending at $900?

Apurva Parekh: It is up and down. It has not gone up from this level, but it could come down as well.

Gunjan Prithyani: But there is no supply side constraint that we had seen let us say about two years back that there was a shutdown and we saw a sharp spike. There is nothing to do with the supply shutdown in this space right?

Apurva Parekh: Temporary disruption does cause that because overall the global demand has not gone up at a level that would result in such a sharp increase, so the increase from fourth quarter to first quarter is not driven by global demand increase. So the price of VAM depends on both the oil prices as well as the supply and demand situation. Many a time, these are short term in nature and the prices do stabilize.

Gunjan Prithyani: Sir just second question on this GST price changes, so what kind of price changes you have made given the GST rate has come down for adhesives?

Apurva Parekh: We have passed on whatever the tax reduction has happened. So if you see our price, whatever has been the reduction has been passed on. There is no change in our price. Our price before tax remains the same.

Gunjan Prithyani: On this compensation, you just mentioned that this would reflect in Q2 or has it already been provided for in Q1?

Apurva Parekh: It has been provided in the first quarter and it is not a very significantly material amount because it was only to compensate for the stock, which was available for them in case they incur any loss due to GST transition. It was only related to that and it has been fully provided for in the quarter.

Gunjan Prithyani: Thank you so much.

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

Atul Tiwari: Sir my question has been answered. Thank you.

Moderator: Thank you. We will move to the next question. The next question is from the line of Saumil Mehta from BNP Paribas. Please go ahead.
Saumil Mehta: Thanks for the opportunity. Sir I wanted to have your thoughts on the adhesives business given so many competitors are talking about fairly aggressive growth, so do you believe that the market is growing enough for players to have a double digit sustainable volume growth or there will be some market share amongst players?

Apurva Parekh: In the medium term, we do believe their markets should grow at a fairly decent rate, so some of the products in adhesive may grow at GDP type rate and some of the products in adhesive segment may grow at a rate faster than GDP, but in medium term we believe that there would be reasonable growth in the adhesive category.

Saumil Mehta: Sure and just a clarification on the ad expense, so could you just give a very ballpark range of how much do you see the ad spend for the next two years as a percentage of sales if not the exact one at least ballpark range?

Apurva Parekh: It would be around 3.5% to 4% of net sales.

Saumil Mehta: Sure. Thank you so much.

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

Tejas Shah: Sir thanks for the opportunity. Sir for the last two quarters you have been consistent with your commentary that the first priority for the company is to revert back to 15% kind of growth rate and for that we are okay sacrificing a bit of margins also, so from today’s commentary I believe that somewhere we are okay sacrificing gross margin, but somewhere A&P will be the driver to actually bounce back the growth, so just wanted to understand how are we playing the dynamics with the margins and growth and what are the levers that we are using in cost structure to revert back to the kind of growth trajectory?

Apurva Parekh: As a company, generally, we do not use price as a weapon to accelerate sales growth. What I have said in the last few calls is that if you look at our last two years gross margins, they have been at historic high levels and that has been due to very significant reduction in raw material cost and hence what I said in the past is that if there is some increase in raw material price, it is not necessary that we will pass on all of that so we will be judicious in terms of pricing and we may not pass on the full price increase from the very low level that we have had. However, sales growth is more driven by brand building of new categories or it is by expansion of consumption or strengthening of the existing brands like Fevicol. So advertising and sales promotion expenses
are more geared towards ensuring medium to long-term growth of the company and that is a strong lever that we have.

Tejas Shah: Sure this was helpful and Sir what proportion of our FY2018 sales we are hoping to get from new product development by plan?

Apurva Parekh: I do not have a number for that and I would not like to estimate or give any number. New product development sometimes has a little longer gestation period, so our policy and strategy has been is that we work in a very patient manner on all the new products. Lot of time, new products require lot of developmental effort but once you reach a certain level it can suddenly go up at a much faster pace, so internally we do not try to set a very firm targets for new products, but we are focused on continuously developing and introducing new products and working on them at a very systemic grass-root level where we work very closely with all end-users and influencers and if we see the response then we remain at it with patience and even if the gestation period is a bit longer we are okay with it. So I would not like to set some target or a number, but I assure you that a lot of effort is going on this area in terms of both increasing the sales of some of the new or young products that we have and developing new products and extension to drive the medium to long-term growth.

Tejas Shah: Sure Sir this was helpful. Thanks and all the best Sir!

Moderator: Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thank you for the opportunity. My question is regarding the other raw material apart from the VAM, so how is the basket of raw material moved say from last year and also sequentially and what do you expect in terms of supply of these key monomers as to whether there were some production shutdowns in Europe or China, which is expected to come back and how do you see it going forward?

Apurva Parekh: So as far as the raw material basket goes, we saw some correction in some of the raw material increase. We also benefitted from the strengthening of rupee, so when compared to the first quarter of last year, so I would say there was about 3% to 4% increase over the last year. If last year was 100, then this year first quarter was around 104 to 105 in terms of raw material cost and that was partially mitigated by an increase in the selling price that we have done during the last year.
On your second question, no we do not expect anything unusual or out of the ordinary unless something significant were to happen somewhere, so if there are short-term disruptions, but we do not see any structural disturbance or trend, which would result in significant raw material shortage. We have one or two products like chloroprene rubber where global capacities are a bit short, but for most of our raw material supply shortages or disruptions are temporary in nature and that can happen in some quarter, but not over a medium to long term.

Anshuman Atri: Second question is regarding the export market. How do you see it to grow say over the next two to three years what percentage of total can it be and which all products and markets can be targeted?

Apurva Parekh: Our export focus now is on emerging markets, so we are really putting more focus on countries in SAARC like Bangladesh, Sri Lanka, Nepal, in Africa and Middle East, so in all these emerging markets our focus is to take our key products like Fevicol and to do similar activities that we have done in India over many years and to establish a strong position. So we are working towards achieving a significantly higher growth in the export market as compared to the growth in India and that the key driver for that would be the emerging countries in these three regions and by putting investment in terms of people, brand building, and activation. This is the export strategy for our consumer and bazaar products. In addition, for our industrial product portfolio also, we have some very good customers around the world including USA and Europe. There, the focus is to continue developing and strengthening our specialty chemical portfolio and to work with some of the best companies in the world in fields like plastic, ink, paint, and other segments and to develop some larger and very good customers, get our products specified, and increase the sale of products in this geography.

Anshuman Atri: Thank you Sir!

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

Anand Shah: I just had a few questions. One on the international markets, what is your take on the growth outlook for them and also on the US part how much did Cyclo business contribute in the overall US business?

Apurva Parekh: Let me answer the question on the Cyclo business first. The Cyclo business contributed to about 35% to 40% of the sales of our US company, approximately.
As for the general outlook, we continue to remain very positive on the countries in SAARC. In the first quarter, particularly in Bangladesh, the shift in Ramadan Eid created a significant impact. The market remained closed for many days during the month of Ramadan Eid in Bangladesh, so there is the impact of that in the first quarter and some impact due to floods, but we continue to remain very positive on Sri Lanka and Bangladesh and they should grow at a reasonably good growth rate going forward. We continue to do developmental efforts in the Middle East and Africa. In the Middle East, we have a good market position and Fevicol is the leader in a number of those countries; however, the local situation has not been very favourable in that market for the last couple of years; however, we will expect that the things will improve and we have a good market position to benefit from it. In addition to that, we continue to make efforts to develop various countries in Africa. We believe that our product has good traction there, can have good acceptance, and we are continuing to build that market. So some of the subsidiaries had a temporary impact in the current quarter, but we expect things to improve. One more company where we had said we had some difficulties, is in Thailand. As you know Thailand also has been going through political and economic instability and that resulted in a reduction in government spending, so we need to see how things work out and how growth comes back.

Anand Shah: Perfect and Sir you did indicate that you had taken some pricing actions in the last couple of quarters, so on a weighted average basis what kind of pricing would be there in the consumer bazaar business?

Apurva Parekh: The price increase will not be very significant. As I had covered earlier, it may be 1% to 2% or so. If you see overall, our value growth and volume growth is not very different and hence the price increase impact is small. We have not done price increase in our bigger products like Fevicol White Adhesive.

Anand Shah: Lastly what is the capex guidance for this year?

Apurva Parekh: We expect the capex to be normal this year. Generally our capex is around Rs.150 Crores or so. So it would be of that order.

Anand Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Manish Poddar from Renaissance Investment Managers. Please go ahead.
Manish Poddar: A few years back you had mentioned that the price difference between us and unorganized players we were talking about in the 5% to 7% depending on categories, is this pricing difference still in similar ballpark?

Apurva Parekh: I do not remember that I said 5% to 7% because in our case, it depends on product to product. In some products, it is even higher than 10% and some products it is 5% to 7%. I do not think there has been significant change in that. Generally our price premium continues to remain at similar levels to what it has been in the past.

Manish Poddar: Just wanted to get a sense on I believe earlier after the management change a new CEO coming up there were thoughts that you will look after acquisitions more actively what is generally the thought process on this part?

Apurva Parekh: I do not think there is any change in our strategy in terms of increasing acquisition drive or anything of that nature, we continue to look and scan for opportunities both in India and outside India but we are very selective about the kind of target that we want to approach and acquire, so we continue to scan the environment. We are in conversation with some companies and we continue to make efforts like we have been doing in the past and if you have seen that has resulted in several inorganic moves in the last couple of years, so we continue to work at it, but we are selective about it. We do not have any target that we must acquire something. We very carefully evaluate the targets and opportunities that are out there and we will proceed only once it makes proper sense.

Manish Poddar: Just to get a thought these will be larger acquisition rather than the small acquisitions, which you have done historically right?

Apurva Parekh: So if your question is related to the overseas market, yes, our acquisitions in the overseas market would be stronger players in those respective markets. What possibly I could have commented is that some of the companies that we had acquired in the past were smaller players in their respective markets. Now our effort is to look at a target that has a stronger market position in their respective countries. However, there may be smaller business - for example the business and the brand that we acquired in Sri Lanka is relatively small but still it was a leader in that country.

Manish Poddar: Right one smaller one if I may, is there a reason for the VAM prices generally volatility during the quarter, is there particular reason to that?
Apurva Parekh: No there is no particular reason that is out of the ordinary but VAM prices depend on a number of things including crude oil. It also depends on the prices of inputs like ethylene and acetic acid, which go into VAM and it also depends on the demand-supply situation and any shutdown that VAM takes, so it is a combination of factors that results in the price going up or down and hence if you see when lot of period when crude oil prices went up, VAM price did not go up; however, in this quarter, the price has gone up a bit more sharply, so various factors are in play, which can influence the price of VAM going up or down, but there is no structural major change in terms of any capacity going out on a permanent basis or demand going up at a much faster pace than capacity addition.

Manish Poddar: Fine that is all Sir! Thank you so much.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir! Just one question on the advertisement spends actually, you said that you are probably up in the advertisement spend in this particular year how were in terms of gross margin numbers we have been pretty much higher on gross margin numbers for the last two years, any specific reason as to why you are probably turning very aggressive on advertisement spends this year, is there anything to do with probably competitive intensity heating up across the board, anything if you like to call out over here?

Apurva Parekh: It is not that we are going to very aggressively increase. We may increase by 50 basis points or so and we will increase the advertising in a step-wise manner and we believe that we need to spend more money on certain categories to accelerate sales growth and, certainly, our advertisement and promotion strategy is not driven by competition. It is driven largely to expand the consumption and growth of our categories so if you see during the first quarter we spent the maximum amount of money on the Dr. Fixit category where there is a great opportunity to expand consumption. So it is driven largely by the opportunity that we see to expand the consumption in our categories.

Prashant Kutty: But Sir generally to ask you in terms of the waterproofing segment construction chemicals for us while the opportunity size is pretty large over the last year and year-and-a-half or so it has been pretty much in a very placid, so anything specific way I mean in terms of incrementally how we are looking at as far as this category is concerned because we have been seeing a lot of competition coming up over there, how do we look at the growth outlook over there?
Apurva Parekh: As you are aware, in the last two years, building and construction activities have been impacted. The building and construction activity across-the-board has been slow, but despite this, our construction chemical business had grown by around 7% or so last year. The figure that you see, if I were to break it up, construction chemical within that has grown by 7% even in a year like last year when there were several macro level impacts that affected the sales and consumption of most companies. So as far as construction chemicals as a category, we believe that the consumption level in India still very low, the penetration level is still very low and hence there is a great opportunity to expand within the construction chemical portfolio. Also, there is increased competition in the coating side of the construction chemicals segment, but it is a very wide product category and there are many products within that where we enjoy a very strong position and we are focused more on expanding the market.

Prashant Kutty: In general Sir if you could just highlight in terms of the quarter generally there may be growth trends qualitatively across our segments anything to call out over the here?

Apurva Parekh: Most of the segments were impacted and they were impacted because there was correction in the stock levels. As I said earlier, till May end, we had a high single-digit growth rate and most of our product segments saw reasonable growth in the first couple of months; however, in June, there was destocking and it was not uniform across all product categories.

Prashant Kutty: But typically to highlight over here what is the kind of inventory levels or what do distributors and dealers usually carry on an average?

Apurva Parekh: I would say the distributors carry between 15 to 25 days of inventory and the retailers and wholesalers maybe another 15 to 25 days, so overall, it will be about 30, 40 days, maybe 45 days or so.

Prashant Kutty: But here they would not have probably benefited by holding on to the stock especially when the prices are coming down or something on that Sir?

Apurva Parekh: No, I do not see they would have benefited from that because it depends on how you get input credit and the calculation is complex, but overall the view of the trade was that they did not want to get into the difficulty of maintaining stock and obtain credit on that, and they were fully aware that if they do some destocking, they can easily pickup the stock in July.

Prashant Kutty: Lastly has most of our trade kind of transition to the new system any number in that front?

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Apurva Parekh: Most of our distributors whom we sell to directly have all obtained GST registration and most of them have started buying from us.

Prashant Kutty: But we do not know about the dealer and retailer?

Apurva Parekh: We do not know about all the dealers and retailers who buy for the stockists; however, for such a landmark and important regulation it would take a little bit of time for everything to normalize and we see things moving in a positive direction everyday but it would still take a few more weeks for things to get normal, in our opinion.

Prashant Kutty: Thank you very much Sir and all the very best.

Moderator: Thank you. The next question is from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Rohit Kadam: Thanks most of my questions have been answered. Just one thing I wanted to ask on the art material and other segment, so this actually if I look at it in the last two years actually this is the most sharply declining segment and if I am correct, probably declined in FY2017 so any update there of how we should look at it going forward?

Apurva Parekh: First let me explain to you what the segment includes. When we say art and craft material, it includes our stationary adhesive brands like Fevicol, Fevi Stick and Fevi Gum, which are used by all houses, offices, schools, etc. So this is the larger category of this segment. It also includes some adhesives and colors that go into the handicraft segment. This is again a very large category in India where there are millions of artisans and handicraft workers who work across India, so we have a fairly large product portfolio in that segment and the third category is hobby and school colours, which is the smaller of the three. So what we saw in last year is that there was fairly significant impact in the handicraft segment where there has been some trend change, so some of our products, which are very high consumption were impacted both by some change in trend and also by some competition from very small players who are selling at very low cost, so we saw an adverse trend in the handicraft and artisan segment and that impacted the growth of this category in particular. Our stationary adhesive business continues to be healthy and our hobby colour business continues to be healthy.

Rohit Kadam: Thanks for that. Sir if you could just share on the handicraft side was it products like Fevicryl low such fabric glue Sir?
Apurva Parekh: That is one of the products which goes into that. Also there are Fevicryl professional colours, which we sell in a larger pack so there are Fevicryl colours and there are some other glues also which goes into the segment, but yes Fevicryl fabric glue is one of the products for the handicraft segment.

Rohit Kadam: Alright Sir! That is it. Thank you.

Moderator: Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: I had a question on the industrial segment now in the industrial coating if I recollect last year you were indicated movement towards higher margin better mix customer and products, which should ensure that we should have margin moving structurally to a better level, but if I see the trajectory for the last two, three quarters it has been more in the 15%, 16% level versus 18%, 19% that we used to see. Now my question was more than is this one-off or was that one-off basically what is the trend that we should look at it when you say there has been improvement in mix if you could get a sense on that?

Apurva Parekh: My comments were related to our industrial product segment - the specialty chemical portfolio. It also includes industrial resin, which are used for the coating industry and a broader portfolio of industrial specialty chemicals including industrial adhesive, industrial resins, footwear adhesive and some of the other products and in that segment our effort has been to improve the product and customer mix and focus on improving margins, so if you see over a longer period of time, this business used to have margins of 11%-12% from where structurally it has been steadily improving to 17%,18%, 19% kind of level, so there has been an effort to improve this. Now what has happened in the last couple of quarters is that there has been a very sharp increase in the raw material prices largely related to acrylates and some of the other raw materials, which are consumed in this industry. Now in this particular segment, whenever there is a sharp increase in raw material prices it does impact the margins so that is what has happened in the last two quarters so it is not a mix type of impact, but a very sharp increase in some of the raw materials like butyl acrylate and ethyl acrylate.

Avi Mehta: Sir if I understand the segment correctly normally the way it works is when such sharp input price increase happened it takes time to pass it on to the customer it is not that it will not be passed it is just it takes time is that fair understanding?

Apurva Parekh: Correct and it does take time and eventually does get passed on to the customer because customer obviously also understands that there is a sharp increase in input prices and they would generally
grant you the price increase, but sometimes it takes time and it increases very sharp the longer the
time it takes.

Avi Mehta: Fair enough Sir structurally the thought process remains the same just timing. Fair enough Sir
and in terms of growth rate Sir in this inter segment just to kind of get a sense should we see
growth remaining in the low single digit levels or because that is slowly creeping into the base
now so how should we look at that part probably going for?

Apurva Parekh: Growth in this segment depends also on the overall economy’s performance both in India and
outside of India. Our industrial business has a fair amount of export turnover as well and a lot of
that turnover is to countries in Europe, USA, Middle east and hence the global economy also
plays a role. As far as the growth rate goes, as the economy performs better, this segment also
should see better growth rate.

Avi Mehta: Thanks a lot Sir!

Moderator: Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Thanks again for taking my question. Sir if you can just spend some time explaining the joinery
business because incrementally MDF is becoming a larger play and you spoke about joinery
making a bigger play in joinery I understand we have products in the joinery business, but how
do we expand the portfolio?

Apurva Parekh: The joinery segment is clearly increasing in India. There was a large number of joineries now in
India - some small and medium and some very large joineries. They require a special set of
products, which are based on different chemistry where hot melt adhesives are used, polyvinyl
acetate-based adhesives are used, there are different specifications for some of the products so, it
is a different type of market. We have developed a full portfolio of products for this segment, we
have also set up a separate route to market when we have special teams servicing these customers
because they require a different set of servicing and we worked very closely with them. In this
market, there are some multinationals like Henkel which operate and there are some international
companies like Jowat and Kleiberit also present and there are some other Indian competitors as
well. We are very focused on this market. We know we have made efforts to develop the right set
of products and we are working in a very structured manner to address this market.

Chirag Shah: I understand and if you have to just give us a broad number what would be the wood making this
is percentage in the total adhesives business now?
Apurva Parekh: We do not give such cuts of data.

Chirag Shah: Sure if you have to just give us a very broad number from where it was it has the dependence on wood based adhesives come down significantly?

Apurva Parekh: If you compare to many years ago, yes it has come down, so now I would say it would be less than one-fourth of the company’s turnover.

Chirag Shah: Sure got it. That is helpful. Thank you very much.

Moderator: Thank you. As there are no further questions I would like to hand the conference back to the management for any closing comments.

Apurva Parekh: Thank you everybody for being on this call and have a good evening. Thank you.

Moderator: Thank you very much. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.

(This document has been edited for readability purposes)