21st November, 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 10th November, 2017.

Kindly take the same on your records.

Thanking You,

Yours faithfully,
For Pidilite Industries Limited

Savitri Parekh
Secretary
Ladies and gentlemen, good day and welcome to Pidilite Industries Q2 FY2018 Results Conference Call, hosted by ICICI Securities. 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 would now like to hand the conference over to Mr. Rahil Jasani from ICICI Securities. Thank you and over to you Sir!

Good evening everyone. We would like to thank the management of Pidilite Industries for giving us this opportunity to host the Q2 FY2018 earnings call. We have with us Mr. Apurva Parekh, Executive Director, Pidilite Industries on the call. We would now like to handover the call to Mr. Apurva for his opening remarks followed by Q&A. Thank you and over to you Sir!

Thank you Rahil. Thank you everybody for joining at the conference call of Pidilite. I will start by giving a brief commentary on our results. Net sales for the quarter grew by 11.2% with an underlying volume and mix growth of 12%. This was driven by a 15% growth in volume and mix of consumer and bazaar products and a 1% decline in the volume and mix of industrial products. EBITDA before non-operating income grew by 21.3% and profit after tax grew by 15.4%.

On a consolidated basis, net sales excluding the impact of the Cyclo business, which was sold by Pidilite USA in June 2017, grew by 9%.

In a challenging business environment, we delivered an good overall performance. This quarter saw a double-digit growth in underlying volume and mix. We remain cautiously optimistic for the future and remain focused on driving profitable volume growth.

We can now take questions.

Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Congrats on a good set of numbers. My first question is on your domestic subsidiaries. How has Nina, Percept, and ICA Pidilite done?

Yes, thanks. Nina and Percept delivered a reasonable performance in the quarter. These are the two waterproofing subsidiaries. So Nina sales grew by about 1.4% and Percept sales grew by 15.9%. The sales were impacted a bit by very high monsoons in many parts of India and some
other issues, which have been affecting construction industry. However, the profit growth has been good. This is due to our focus on both margins and cost. ICA Pidilite growth on a comparable basis is about 17%. The reported figure looks like a decline of 1.3%, but that is because the GST sales impact is accounted for. Removing that impact, the sales grew by about 17%.

Abneesh Roy: So you expect Nina to recover now, because in Q1, I think it was a very strong double-digit growth?

Apurva N. Parekh: Yes, for companies of this size, I think quarter-to-quarter numbers are not the best indication. As you can see, for the first six-month period, Nina sales have grown by 16%, so that is encouraging. However, the construction industry is still seeing some stress and hence it is difficult to predict what kind of performance would be there for rest of the year. However, we are taking lot of initiatives in terms of developing the business of both these companies. We are expanding our consumer base from builders to lot of other segments and hence, we are optimistic that these subsidiaries would do well.

Abneesh Roy: Sir, your domestic consumer business has seen very good volume growth. My question was how is the competitive intensity in Fevicol? The GST rate came down, so how did that impact the overall inventory. So because rate cut was there, so did that lead to a postponement and that is why Q2 would have benefited because of that and that is a one-off you would like to call that off. And from the larger players who have entered into this, how is the competitive intensity?

Apurva N. Parekh: In the first quarter, the impact was not about delaying decisions, but just pure GST-related transition issues. A lot of people, especially the channel partners like distributors and dealers held back their purchases. So, our first quarter sales was affected because of GST, which was going to be implemented from July. The current quarter’s growth is partially due to restocking by the channel partners and some amount of our growth is also due to better demand in this quarter. As far as larger competition goes, the new entrants, we do not believe that any of the new entrants in the Fevicol segment has had any significant impact.

Abneesh Roy: And Sir, because of GST, smaller players, are they losing out or are you seeing even reverse shift, we are seeing in some sectors reverse shift happened because hardly any compliance is being implemented in the GST regime.

Apurva N. Parekh: I think it is too early to really say whether the business is shifting either way. But I think clearly there is a greater focus on compliance and people are conscious, even dealers seem to be more oriented towards purchasing products from companies, which are tax-compliant. So based on just
last couple of months of experience, it appears that people are favoring companies who are GST compliant. But how will this pan out, we have to see.

Abneesh Roy: Okay Sir that is all from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Avi Mehta from India Infoline.

Avi Mehta: Sir, my question was on the sales growth. Essentially, if I look at the first half headline sales number that you have given, it is about 5% and you had highlighted in the first quarter conference call that the underlying retail demand was high-single digits in April and May. Does that suggest that demand environment has kind of moderated? If not, if you could help explain that. And related to that, why the cautious optimism? Is that the reason?

Apurva N. Parekh: What I had said in the last investor call is that our sales in April and in May had grown by about 8% to 9%. And because there is no way for us to estimate what really the consumer off-take is, I had said that it would be in that order. Our consumer and bazaar business, if you see for the first half of the year, has had approx. 5% growth. So it is not much different than what was there in the first couple of months of the year. Our industrial products segment has not done very well. For the first six months of the year, the sales have been largely flat. And even within the industrial products, the impact has been greater on the export of our industrial products. So if you see from the numbers, the first six months number is not very different from what I had shared for the first two months except for industrial products, where the exports have been impacted.

Avi Mehta: Sir, in that case then, if you are seeing such a healthy growth rate kind of continuing, why the cautious optimism, would you not argue for this rate to sustain as we go forward and what remains a concern over there?

Apurva N. Parekh: It is just first couple of quarters, GST has just been implemented. Lot of things are fluid for the moment. So when we say cautiously optimistic, 6% to 7% is not our growth target. We would definitely like the growth to be double-digit plus. So my comment is not in the context of the current growth rates.

Avi Mehta: Sir, my second question was on the EBITDA margin. We have seen an expansion in the consumer and bazaar segmental margins from the first quarter levels. What would have driven that? Has there been a price increase since the one that you indicated in May, any further price increases?

Apurva N. Parekh: No, the EBITDA margin expansion is largely due to lower advertising and promotion expenses in this quarter. Our advertising and promotion expenditure in this quarter were lower than
normal. Our advertising and promotion expenditure are not uniform across all the four quarters. It depends on the opportunity or it depends on whether we have spent for production of films or have bought a significant campaign on television. So for various reasons the expenditure was lower in this quarter and that has resulted in the expansion of margin. However, our expenditure on advertising and promotion will normalize over next couple of quarters.

Avi Mehta: Okay. And Sir, any update on VAM, if you could share. That is all from my side, I will come back in the queue.

Apurva N. Parekh: The VAM prices have seen an increase. So compared to June-end and September-end, there has not been much difference. The prices remained at the same level between June and September. However, after September, the prices have increased a bit. They are now upwards of $1,000 per tonne.

Moderator: Thank you very much Sir. We will take the next question from the line of Gunjan Prithyani from JP Morgan.

Gunjan Prithyani: Just a follow up on the previous question; you mentioned ad spends have been moderated. Could you give some guidance where should we look for the ad spends this year, because I think even last year, our ad spends were curtailed.

Apurva N. Parekh: Our advertising spends should be around 3.5% and 4% of net sales. Last year they were purely curtailed because there was pressure on top line due to demonetization and other factors. So we had controlled some of our advertising and promotion expenditure. However, in current year, the second quarter is not because of that, it is just because we did not have the right opportunity. But for the full year, our expenditure would be in the range of 3.5% to 4% of net sales.

Gunjan Prithyani: Would you be able to share the amount that you would have spent in the first half of the year?

Apurva N. Parekh: Our expenditure in the first half of the year on advertising and promotion should be about Rs.65-70 Crores.

Gunjan Prithyani: Okay. And Sir secondly, just moving to this margin outlook, I just wanted to get your sense and how should we look at it from here on in the sense that we are clearly seeing VAM’s prices increase and also, you will see ad spends increasing in the second half of the year. So if we were to look at, let us say, FY2018 and FY2019, what would be your broad guidance around the margin expectations?
Apurva N. Parekh: As always, we would not like to give a specific guidance in terms of a number and the biggest factor that would determine our EBITDA margin would be the sales growth. So while material cost and advertising promotion expenses will have an impact on it, but maybe the largest impact would be on what kind of growth rate we achieve for the balance part of the year.

Gunjan Prithyani: Okay. And if we were to look at the underlying demand trends in, let us say, October-November post the Q2 close, have you seen the momentum that you saw in September quarter sustained?

Apurva N. Parekh: It would not be right for us to share on how we are doing in the current quarter. But if you look at the second quarter numbers, the situation clearly is much better than the first quarter, which was impacted by GST. We have seen across the board double-digit growth in most of our product categories. We see that companies like us, which are tax compliant and which have extensive distribution network, it appears that we are benefiting and gaining. Now we need to see how this sustains and what kind of growth rate we get in the next couple of quarters.

Gunjan Prithyani: Okay Sure. Just last question from my side, on the art and material segment, we did see a de-growth last year, has there been any improvement on that space or it continues to stay under pressure.

Apurva N. Parekh: So when you call that art material, what we call as art and stationary portfolio is a wide portfolio, which includes products like stationery adhesive, art material and handicraft adhesive and colours. So we have three or four categories, which falls under this. Most of them appear to be doing okay except for one segment, which is handicraft adhesive. That segment is not doing very well but rest of the segments are doing okay.

Gunjan Prithyani: Okay all right. I will join back in the queue. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Rohit Kadam: Sir, on gross margins, we have seen flat gross margins Y-o-Y in your standalone, and so despite input cost moving up, I mean, how was this possible? I mean, did we take price hikes through the quarter or there was some amount of promotional intensity, which went down, that is my first question.

Apurva N. Parekh: If you look at our material cost as a percentage of sales for first six months, it has increased by 152 basis points. We have done some price increases over the last one year at different points of time. It is not an across-the-board price increase, but in some of the products, we have increased
the price. To answer your question, the impact of the increase is clearly visible in our material cost as a percentage of sales.

Rohit Kadam: Okay. So anything any price increases you have taken in the last quarter, in the September quarter?

Apurva N. Parekh: We would have taken it in a few products, but it is not an across-the-board kind of a price increase.

Rohit Kadam: Nothing in your core adhesive kind of portfolio?

Apurva N. Parekh: In some products, yes, but not in many of the products in the core portfolio.

Rohit Kadam: Okay. Sir my second question is, is the overall kind of system inventory which typically for you is 15 days with distributors and another 15 days with wholesale or retailers. Is it back to the same level or is it going to settle at a lower level? And any particular reason pan-India, where wholesale is still fully not kind of normalized.

Apurva N. Parekh: Distributor inventories are back to near-normal. We work closely with distributors and we have a good sense of their inventory which I would say is back to near normal. As far as the retailers go, the smaller retailer inventory also appears to be okay. The wholesaler inventory is still impacted a bit. They are not stocking as much goods as before. But the bulk of the retailers, the inventory is coming back to near-normal levels.

Rohit Kadam: Okay. So just one last question if I may. Sir, if I look at your consolidated standalone, which is basically your international and the waterproofing subsidiaries, I get a top line decline of kind of high double-digit. So is the difference versus what you have reported, is there an adverse currency impact here?

Apurva N. Parekh: Yes, a little bit of cross currency impact, and along with that, there may even be some elimination impact of inter-subsidiary sales.

Rohit Kadam: Thank you.

Moderator: Thank you. We will take the next question from the line of Amnish Aggarwal from Prabhudas Lilladher.
Amnish Aggarwal: Hi Sir, I have a couple of questions. My first question is regarding our gross margins where we have seen a QoQ improvement by nearly 240 bps. So can you throw some light on this Q-on-Q improvement in margins?

Apurva N. Parekh: You are talking about EBITDA margin, right?

Amnish Aggarwal: Gross margin Sir.

Apurva N. Parekh: The gross margin improvement could be due to mix.

Amnish Aggarwal: Okay. And Sir, in the same context this time when you have stated what the volume growth, you are saying volume mix whether it is 15% or 12%. Can you throw some light on, what is the difference between this volume mix and pure volume growth?

Apurva N. Parekh: We have a mix of products like Fevikwik, which is a very small volume versus Fevicol. So in our case, the price per kg differs significantly. Smaller consumer product price per kg will be very different from the larger product. So if you do pure volume, in our case, it does not mean anything, because our pure volume would not indicate anything. So the way we compute this is by keeping prices common across the two periods and then try to see what is the difference in growth and that technically is volume and mix together and not volume alone. What we are using as volume and mix is the right description of what the growth is. Pure volume is just adding up tonnages for two periods and for us this is not comparable and it would not mean anything. So we derive this figure by keeping the selling price constant across two periods and seeing what the difference in growth rate is.

Amnish Aggarwal: Okay. And Sir, my final question is that obviously, there is an expectation that the organized sector will gain from the unorganized sector, but in the Q1, we had seen some inventory destocking. So out of the growth, which we have received in this quarter, can you give us some idea that what could be the proportion of inventory stocking out of this?

Apurva N. Parekh: That is very difficult to say because inventory is stocked at various levels. So it is very difficult to predict what it would be. And I would encourage you not to really look at quarter numbers too much and try to make sense of it. It is very difficult to estimate and the figures can change quarter to quarter. So it would be very difficult to estimate how much of this growth is due to inventory coming back to normal level and the normal growth.

Amnish Aggarwal: Okay. And Sir, finally, just one bookkeeping questions, what was the ad spend during the current quarter?
Apurva N. Parekh: So, ad spend, as we said, during the current quarter, was about 1.7% of sales, which would mean about Rs.20 Crores to Rs.23 Crores.

Amnish Aggarwal: And what was the same number last year, Sir, same quarter?

Apurva N. Parekh: The figure was much higher. I think last year in the same quarter was more like Rs.55 Crores, Rs.58 Crores.

Amnish Aggarwal: Rs.55 Crores, and this year is 1.7% of sales?

Apurva N. Parekh: That is right.

Amnish Aggarwal: Okay Sir. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Lakshminarayanann from Catamaran.

Lakshminarayanann: Thanks for taking my question. Sir, I have two questions. One from an outreach program of carpenters, what percentage of carpenters you actually cover in India right now and what was that number, say five years back? Any kind of sense that will be helpful. The second is, what has been the contribution of Do-It-Yourself product like a Fevikwik etc., for us in terms of standalone revenues and what was that five years back?

Apurva N. Parekh: There are two levels of carpenters. There are people known as contractor or mesthri as we call them. They are the people who typically take a job from a consumer and execute the job with the help of carpenters. So contractors are the people who are really the decision-makers in terms of the purchase process. So we cover most of the contractors who exist. I would not like to give a number for competitive reasons, but we do cover most of the contractors and we have very good connect with them. What was the figure five years ago? I do not have that figure handy. But we steadily increase our penetration and reach to cover what we believe as most of the relevant contractors. We still cannot cover all of them. But that figure would have increased on a steady basis. And this is a very important initiative for us, so we give it a lot of focus. And every year, we cover more and more of them and we have a fairly good coverage of contractors.

Lakshminarayanann: Is there any zone in India where there is sufficient amount of contractors, but our outreach program has not really covered and which state or which regions are those? And then, what is our plan for those regions?

Apurva N. Parekh: No, there would be a geography that is not as well covered. There may be different geographies where our presence may not be uniform, but it would not be possible for me to share those kinds
of details on a call in terms of which are the areas where our penetration is low. But just to tell you, the segment is growing, more contractors come into play every year, more towns come into play, smaller town start coming into the consumption cycle. So that is the way we penetrate and grow. And of course, we have some geography gaps or areas of improvement and we are focused on that.

**Lakshminarayanan:** Got it. And what has been the expenditure on that, because you have talked about your advertising thing, but for the below the line initiative, what kind of amount you spent?

**Apurva N. Parekh:** I do not have the exact figure right now. But it is a substantial part of our advertising and promotion spend.

**Lakshminarayanan:** Got it. And the second question is on the Do-It-Yourself products.

**Apurva N. Parekh:** Again, we would not like to give brand-wise sale and give a break up of our business in that manner for competitive reasons. We share the consumer and bazaar sales, which is about 50% of our total sales. However, what I would like to say is that we have some brands like Fevikwik and M-Seal, which are fairly large brands. They figure amongst the Top 5 or 10 brands of Pidilite and they have significant sales. So consumer brands are very important to us and some of them like Fevistick, Fevicol, Fevikwik and M-Seal are fairly significant contributors to the overall turnover of the company.

**Lakshminarayanan:** And any sense of what has been the growth there? I am not asking for their revenue contribution, but in terms of growth, is it above the company's growth or below the company's growth?

**Apurva N. Parekh:** Over a five-year period, I would say that it would be in line with the company's growth, maybe a bit higher than that.

**Lakshminarayanan:** Got it. Thank you so much Sir.

**Moderator:** Thank you. We will take the next question from the line of Avi Mehta from India Infoline.

**Avi Mehta:** Hi Sir. Is there any geographical trend in terms of the demand pickup in any segments, either urban, rural or any regions, which have done differently?

**Apurva N. Parekh:** More or less, there are some states that are doing a little better, but no clear trend is really emerging, which is very significant in nature. However, we do see that the demand from smaller population centers are increasing, and that could be due to wholesale being under stress. So a lot of smaller population centres that was serviced by wholesale, are now buying more quantity...
directly from the local distributor. So we see greater growth coming from smaller population centres.

Avi Mehta: So in that kind of sense, now that as you highlighted, wholesale inventory is where it is, not yet kind of moved up. You also indicated about, I think, three quarters back or two quarters back the increasing focus on direct distribution. Have you made any increased efforts over there or could you share any numbers on that front?

Apurva N. Parekh: So wholesale inventory, as I said, it has not come back to normal level. But wholesale inventory also is better than what it was in June-end. So inventory correction has happened even at the wholesale level but it may not be back to the historical levels. As far as our initiative to expand our distribution, we are focused a lot and we have achieved significant growth in semi-wholesalers, the smaller wholesalers, and enrolled them into our direct distribution plan and in our various promotion plans. So we have achieved a good increase in numbers in them. In addition to that, we as a company have really focused in smaller population centres. So all the towns below two lakhs gets special attention from Pidilite. All businesses of Pidilite go in a combined manner to service those towns. So we have steadily covered most of the towns, which are below two lakhs, in most parts of India.

Avi Mehta: Is this is your program that you kind of...?

Apurva N. Parekh: Rurban, what we call is Rurban.

Avi Mehta: Yes. Okay.

Apurva N. Parekh: So, we have made good progress in that. Every year, we make steady progress in that direction to cover more and more geographies, and to do more and more work in such towns.

Avi Mehta: Sir, the second question was that you have always highlighted this focus on doing double-digit kind of volume growth, bringing growth back on that. The key concern over there was on demand environment not being favorable; it is also macro where it is. Do you increasingly feel that we are seeing a change in the consumer sentiment or it will take more time? What is your view now?

Apurva N. Parekh: No. I think there is no difference in our view compared to what we said earlier. We need to see some more quarters to see how things are moving. But in June because of GST coming, there was a bit of disturbance and people were not fully ready. Their transition has gone well. Most of the channel partners have adopted it too and the trade has really started happening at a good pace.
So that is a very good progress from June. But from the underlying consumer demand, it is still too early to say anything. I think one or two more quarters would give a very good idea.

Avi Mehta: Okay. So, as of now, it is still too early to kind of call out the same kind of pickup?

Apurva N. Parekh: It is. We would not like to call out and make some guess because the indications are not very clear. Also in our industry, there is no sort of tracking to really give us the right idea.

Avi Mehta: Okay. And Sir, lastly, on the gross margin front or let us say on the overall margin front, while there was the initial concern about input costs pressures kind of coming in, we see that market is turning a little benign in terms of the earlier expectations, so from a 750 to 950 while that was sharper, now it is more or less -- VAM is also settling in a very kind of broad range. Would you kind of argue given the price increases that we in a much more comfortable situation in terms of input costs or is there anything that we should be kind of aware of?

Apurva N. Parekh: I do not know what you mean by more comfortable but compared to September-end, as I said earlier, VAM prices have gone up a bit more compared to September-end. So they have increased by 10% or so (on weighted average basis) since September-end. So there is a bit of an upward trend in some raw materials and some raw materials have corrected a bit. But overall, there has been an upward trend. Oil prices are firm. So overall, it is possible that raw the material prices may increase or may remain firm.

Avi Mehta: Okay, to put it differently, what is the quantum of price increases Sir? Is there a number that you could share on an overall portfolio basis in the Q2, while it is across some products, but on the overall quarter?

Apurva N. Parekh: No, it is not a significant price increase in the second quarter.

Avi Mehta: Thank you very much Sir.

Moderator: Thank you. We take the next question from the line of Manu Agarwal, an Individual Investor. Please go ahead.

Manu Agarwal: As you can see, the tax rate has increased from 28% to 32% since the last year. So moving forward, can we say that the tax rate would remain in the same range?

Apurva N. Parekh: Yes, that is correct.

Manu Agarwal: Thank you that is it from my side.
Moderator: Thank you. We take the next question from the line of Anshuman Atri from Haitong Securities.

Anshuman Atri: Thank you for the opportunity. Congratulations on the performance. My question is regarding the mix of consumer versus industrial. Over years we are seeing the consumer segment is increasing in terms of overall mix. So how do you see it in the next couple of years whether the Industrial will continue to go down or will the pickup in industrial activity bring it back to your earlier levels?

Apurva N. Parekh: We have a very strong position in Consumer and Bazaar products and we are making significant investment to achieve accelerated growth in Consumer and Bazaar products. And hence for this very reason, the contribution of Consumer and Bazaar products to overall sales of the company may continue to increase.

Anshuman Atri: The focus will be more on consumer rather than industrial?

Apurva N. Parekh: No, it is not rather than. Both are very important businesses for Pidilite. We also have a very good Industrial business, but we have greater strength in the Consumer and Bazaar business. So we are making greater investments in that area for accelerated growth. And hence it is likely that that the business may grow faster. We give equal and sufficient attention to the Industrial business as well, but there we are a bit dependent on how the end user industries do, in terms of, companies we supply to like paint, ink, textile and we also export a lot of our products. So our Industrial Product business, to some extent, does get impacted more by external factors than our Consumer and Bazaar business and hence, their growth rates may not be as uniform as our Consumer and Bazaar product business. So just both the businesses will get the right attention. However, we have much stronger position in Consumer and Bazaar and we are putting greater investment in that, so that may see better growth rate as it has happened in the last few years.

Anshuman Atri: Okay. My other question is regarding this coating where we have gone ahead in the value chain and have few coats whereas at the same time, we have seen some paint companies coming into the adhesive segment. Sir how do you see this whole both the markets coming together with companies targeting each of those market, though Pidilite is the #1 by far in the adhesive segment. How do you see your coating segment going through in the next 3 to 4 years?

Apurva N. Parekh: We have had some coating products for many years. We used to sell some distemper, some stainers for many years. In stainers we have a good position. So that is our part of coating portfolio. We also have some waterproofing coating like external waterproofing coatings and some of the other related products. So we have been involved in some niche or specialized coating products. So as of right now, this is our portfolio and this is what we are working with. There is no immediate plan to do anything more than that. As far as paint companies coming into...
adhesive, they have been making efforts. Asian Paint has been making efforts; some other paint companies have either announced or have made some effort. But we believe these are very 2 different markets, it requires different sets of competencies to succeed in the respective markets. But these are capable companies so we are keeping a close watch. However, we do not believe that there has been any significant impact since they have launched these products.

Anshuman Atri: Lastly, Sir, you had launched new products for furniture making using machines, different kind of Fevicol variant. How is the pickup and what kind of market do you see for this machine-based furniture production from automated machinery?

Apurva N. Parekh: So that business is doing well. What you are referring to is what we call as joinery adhesives. Joineries are the units, which make furniture using machines. And we have been focused on this segment. We have significantly expanded our product range, put together a special team to service this segment. And this business has been growing at a good pace. And we will continue to put greater attention on this to gain further share in the segment. However, the Indian market still has a very large share of furniture, which is made onsite, and in that particular segment, Fevicol is also very, very strong.

Anshuman Atri: Thank you Sir. All the best.

Moderator: Thank you. We take the next question from the line of from Gunjan Prithyani from JP Morgan.

Gunjan Prithyani: Just two questions, firstly on the industrial business, you did mention somewhere in the press that it has been some orders which have been shifted or the timing difference. So do we see the revenue growth coming back in third quarter in this segment and also the margins seem to have moderated far higher than the Consumer segment in this segment, is it to do with the VAM pressure already being priced in here.

Apurva N. Parekh: No, on Industrial Pproduct, I had given two reasons. One was some timing difference on some orders and in addition to that because of very high increase in input cost, we have cut down exports of some of the products where margin challenges existed. So these 2 factors resulted into an impact on exports. Now, if you look at our IP business and go back and look at 2015-2016, 2016-2017 and 2017-2018, our margins have significantly improved last year. Our Industrial product margin in 2016-2017 was significantly higher than the year ago. So for the last couple of years, when the raw material cycle was very low, the Industrial business significantly benefited from it and there was a big margin expansion. However, as material prices have strengthened, it is natural that in this cycle, Industrial product margins would come down.
Gunjan Prithyani: Okay. And the second question on your on some of the products where competition is strong, essentially the epoxy and the tile adhesive silicon, what are we doing is that we are focusing a lot on new launches or what is your thought process around the gaps that we have versus the competition?

Apurva N. Parekh: Epoxy adhesive and tile adhesive or silicon sealants are not very big or important products for us. By important I mean they do not contribute significantly to our turnover or the contribution is very small at this moment. So in that way, these products do not significantly impact our top or bottom line. However, we are also making our efforts to increase our presence in this market. If you look at epoxy adhesive, Araldite is the largest brand and Resinova is the second largest brand. So we are making our efforts to improve our position in this segment. But as of today, they have low contribution to our sales and profits.

Gunjan Prithyani: Thank you.

Moderator: Thank you. We take the next question from the line of Rahil Jasani from ICICI Securities. Please go ahead.

Rahil Jasani: So I just had two questions. One is that, you mention that the demand situation has improved in Q2, was it due to festive season also? Where do you see the impact of festive season, because it was an early festival season this time?

Apurva N. Parekh: So early Diwali does benefit, but in our case, the products whose sales are linked to Diwali are not very large. For companies like paint companies, early Diwali has a very significant positive impact. For us, the contribution of these types of products, which are very closely related to Diwali, is small. So there could have been some impact, but generally for us, this impact is not very large.

Rahil Jasani: And just wanted an update on what you call the Pioneer product, a new innovation. You mentioned about the joinery product, but anything on other products such as tile adhesives, wood finishes etc?

Apurva N. Parekh: So in terms of wood finishes, you may be aware that we have done a joint venture with ICA. So now that business is under our subsidiary called Pidilite ICA. ICA, as you all know, is one of the world's largest premium wood finishes companies and we now have a 50-50 JV with them and we are in the process of setting up a manufacturing plant in Gujarat. So with this, we plan to grow our presence in this segment. On tile adhesives also, we have adopted some new strategy, which has been under pilot for the last few months in one state of India and we have seen some
encouraging results. So we plan to put, again, more efforts to grow our presence in tile adhesives segment.

Rahil Jasani: Thank you.

Moderator: Thank you. We take the next question from the line of Lakshminarayanan from Catamaran.

Lakshminarayanan: Sir I had 1 question regarding your Bazaar segment and Consumer segment. While in the industrial thing, you actually would plan your business keeping in mind the industrial growth or even in consumers there are some parts, which you will actually look into the real estate growth, right? So for most of the business, when you actually plan for your business, what are the 1 or 2 top indicators you actually take as a leading indicator for your growth?

Apurva N. Parekh: We do not plan very short term growth. We work on slightly medium to long term. So we have identified the segments in which we want to participate and we develop a clear strategy and the initiatives that we want to pursue. And we are focused on ensuring that we execute our initiatives well and we believe that the growth will follow. So we do not like to plan based on what would happen in the next quarter.

Lakshminarayanan: Yes, it is not on a longer-term, when you actually plan for your business like 5 years right. So there is clearly the demand on housing segment you know that things would actually pan out, you are getting into more on the housing segment business etc, right. But for the other part of the business which is essentially the consumer glue or any other product in terms of carpentry, etc. How do you plan for your growth is my question because...

Apurva N. Parekh: In a lot of the categories, what we have understood is that the consumption level in India, or penetration is still very low. So in most of the segments for us, the real challenge is to expand the market. Pidilite is a leader in most of the products and segments in which we operate. However the consumption level in India still continues to be low compared to many of the adjacent countries. So what Pidilite has done successfully over the year is the focus on creating or expanding the market. So when we plan for the future, we are aware of the fact that, in our products the potential is there; we need to focus and create new consumption; expand consumption; improve penetration; look in areas of India where the consumption may be lower than the rest, focus there or focus on changing the habits of people, so consumption goes up. So where we believe that there is a significant untapped potential and we work towards tapping that potential.

Lakshminarayanan: Thank you.
Moderator: Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: One question that you answered to a colleague earlier that you cut down advertisement expenditure roughly by a material number from last year, same period Rs.55 Crores, this time was materially less number. So how do you see why did you have a lower number in this quarter? And do you see that there is going to be a relatively materially higher spends over the next 6 months or over the next 18 months as you try to gain from unorganized etc.

Apurva N. Parekh: So Nitin, it was not a conscious decision and we did not cut down the expenses. I think I explained earlier that this was purely a timing difference. If you really look at the same quarter last year, our expenditure was much higher than normal and this quarter; it was much lower than normal. And that is purely timing, opportunity based. Our campaigns are largely linked around getting the right opportunity, and then we spent a significant sum. We do not try to balance that expenditure quarter-to-quarter.

Nitin Bhansal: Okay. I know you also explained the value and the mix break up; so value and mix, how is it driving? So given the scenario where we are in our country right now, in terms of there are certain instances of organized real estate construction possibly not going through massive growth right now, or if you are looking at the other building materials like let us say a plywood sales or a tile sales Y-o-Y it is down in this quarter at a primary level at least. Are you noticing that the bulk volumes of packages for you are growing relatively slower than the small packages and you also indicated that small town sales are higher? So how should one read about what is happening in the bulk packaging and small packaging?

Apurva N. Parekh: When we look at this large builder segment who build multi-story type of complexes, it is still relatively a smaller part of the new construction in India. Bulk of construction in India is still single-storey construction, which happens across India. So there is a stress in the larger builder segment and that does have an impact on everybody, including us to some extent. But there is a vast amount of construction, which is of single storey, which happens across India where the stress is not same.

Nitin Bhasin: The last question, in terms of the GST impact or otherwise, how do you foresee the next 18 months or so in terms of working capital change for the company, in terms of what sort of initiatives you are taking to improve our working capital because of either regulatory changes or yourself internal? How should because margins are fairly one thing, but other thing is how to become more capital efficient from here on also. What kind of scope do you see, what are you doing?
Apurva N. Parekh: Working capital is very important to Pidilite and at any given time, we have a lot of initiatives on how to optimize our inventory and our receivables. So that is a continuous exercise and we always find opportunities to address it or reduce it. As far as related to GST, there is some temporary increase in working capital, which is related to GST, which we would expect to normalize. But on an ongoing basis, whether GST would result into higher working capital, we do not know. We need to see. So as far as GST goes, also our hope or expectation is that should not have any material impact on our working capital. But as far as for rest of our businesses, there is always room to optimize and improve the efficiency.

Nitin Bhasin: So, any targets that you could actually explain it to us that over the next 18 months or so. I am not looking at short terms, 18 months, 30 months, what sort of efficiency can be extracted from the system?

Apurva N. Parekh: We have an internal target, but I would not like to set or share any target and it would not be very significant compared to the scale of the company. If you look at our working capital and if you have a 5% or 10% correction, it is not going to make a significant difference. So we have an internal target to improve and bring greater efficiency, but I do not think that would have any significant impact of that nature.

Nitin Bhasin: And any trends that one can see from the construction chemicals in terms of which can impact growth rates one year and two years down the road because of the initiatives in terms of penetration, in terms of new product launches. Can we see construction chemicals growth over the next one to two years materially different from what we have seen in the last few years.

Apurva N. Parekh: We are working hard to see materially different growth rates. And in terms of initiative, this year you may have seen that we had a campaign with Amitabh Bachchan. So we had a campaign, which was on Dr. Fixit as a brand, and also we had a campaign on jodi, which is our two leading products, again with Amitabh Bachchan. And those advertisements really helped us improve awareness of Dr. Fixit across various town classes. So as far as our initiative goes, we are focused on increasing brand awareness, increasing product usage or application awareness, and we are working towards achieving materially higher growth rate in construction chemicals.

Nitin Bhasin: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Apurva N. Parekh: Thank you, everybody for joining the call on a Friday evening. We appreciate your interest in Pidilite. Have a good weekend. Thank you.
Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.