9th February, 2018

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

Dear Sir,

Sub: Transcript of the Earnings Call

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 25th January, 2018.

Kindly take the same on your records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

Savithri Parekh
Secretary
“Pidilite Industries Q3 FY 2018
Earnings Conference Call”

January 25, 2018

ANALYST: MR. VISHAL PUNMIYA - MOTILAL OSWAL SECURITIES

MANAGEMENT: MR. APURVA PAREKH – EXECUTIVE DIRECTOR – PIDILITE INDUSTRIES
MR. P. GANESH – CHIEF FINANCIAL OFFICER - PIDILITE INDUSTRIES
Moderator: Ladies and gentlemen good day and welcome to the Pidilite Q3 FY2018 earnings conference call hosted by Motilal Oswal 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. In case 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. Vishal Punmiya from Motilal Oswal Securities. Thank you and over to you Sir!

Vishal Punmiya: Thanks Aman. Good evening everyone. On behalf of Motilal Oswal Securities, I welcome you all. We have with us Mr. Apurva Parekh, Executive Director and Mr. P. Ganesh, CFO from the management. Without much ado, I will hand over the floor to Mr. P. Ganesh for opening remarks. Thank you, over to you Sir!

P. Ganesh: Thank you, Vishal. Good evening everybody. I will begin with a summary of the financial performance for the quarter ended December 2017 for the standalone business. On a comparable basis, net sales at Rs.1366 Crores grew by 20.2% over the same quarter last year with underlying volume and mix growth at 22%. This was driven by a 23% growth in sales volume and mix of Consumer and Bazaar products and 18% growth in sales volume and mix of industrial products. EBITDA before non-operating income at Rs.359 Crores is higher by 28.9% over the same quarter last year. Profit after tax during the current quarter is at Rs.239 Crores, an increase of 17% over the same quarter last year.

Now I will move to our summary of the consolidated performance for the quarter. On a comparable basis, net sales at Rs.1533 Crores grew by 17.3% over the same quarter last year. This excludes the sales of the Cyclo Division of Pidilite USA, which was sold by Pidilite USA in June 2017. EBITDA before non-operating income stood at Rs.372 Crores and grew by 28% over the same quarter last year.

Profit after tax during the current quarter is at Rs.239 Crores, an increase of 18% over the same quarter last year. In this steadily improving economic environment, we have delivered a strong overall performance this quarter, with robust broad-based volume and mix growth across our categories. While there are signs of commodity cost inflation, we remain committed to driving profitable volume growth.

We can now open the floor for questions.
Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, congratulations for the great volume growth performance. My first question was on sales. Now we have seen two quarters of very encouraging sales growth, volume led sales growth if I may say, in last quarter you are little hesitant calling out a recovery would you now say it kind of mix increasing the confident, the demand is recovering?

Apurva Parekh: If you look at the performance, I think the second quarter sales growth was also partially due to low growth in the first quarter. Our sales had declined in the Q1 because of GST, so the second quarter growth was partially aided by recovery from that and in Q3 of this year we have a lower base of last year. Having said that, we see steady improvement in the economic conditions and most of our product categories have performed well. however, we need to see for a couple or more quarters before we can make any statement like the one you are asking.

Avi Mehta: You still believe it, but the medium term target is there, but you are still cautious is what I should kind of takeaway Sir?

Apurva Parekh: We continue to be cautiously optimistic.

Avi Mehta: What was the reason then for pickup in this quarter, it was more a base effect is what you are carrying or was it an uncertainty?

Apurva Parekh: It was a mix of both. If you look at last year, clearly, because of demonetization, the base was lower, so the lower base of last year did help us without a doubt; however, we see an improvement in the economic situation as Ganesh said in the opening statement. We see steady improvement in the economic condition and that has also has helped the growth, so it is a combination of both.

Avi Mehta: Secondly was just a clarification on the subsidiary. You have said that there is issue with the ICA growth rate because of some reclassification issue with the authorities. Could you just clarify what would that mean? Second would the growth rate for Nina and Percept that we see headline is that like-to-like net sales growth or is it gross to net because of the reclassification or indirect taxes?
Apurva Parekh: To answer the question on ICA Pidilite, in one of the products we had a classification issue in terms under which chapter it should be classified and because of that what kind of GST should be paid and because of that difference in some days we have stopped our operation that we get adequate clarification on that and we still have a difference with the concerned authority as we are contesting the stand that they have taken. However, in the meanwhile the business had started so that has caused some disruption during the last fortnight of the quarter.

Avi Mehta: The business has started at our billing rate or are you doing at theirs?

P. Ganesh: No currently we have to do under that rate, but under protest.

Avi Mehta: If you kind of just clarify on the whether it is a like-to-like sales growth in subsidiary?

P. Ganesh: Like-to-like basis.

Avi Mehta: They are net-to-net sales, it is not gross and net?

Apurva Parekh: Yes.

Avi Mehta: I will come back in the queue for any other questions. Thank you very much.

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

Gunjan Prithyani: Thanks Sir, for taking my question. Just two questions, firstly would it be possible for you to give us a little bit more colour on the growth because you clearly seemed to be suggesting that the environment is improving, but if you can share more colour on whether you are seeing the adhesive segment or you are seeing the construction chemical, waterproofing segment picking up now, any colour and secondly if you could share the VAM prices and the trend that you are seeing in the current month?

Apurva Parekh: Gunjan on first question, we have seen good growth across most product categories, adhesives, and sealants, and construction chemicals included, so we have seen a broad-based good growth across most of the product categories. As we always say, I would not be able to give you exact growth figures for each of the category, but I can tell you that most of our product categories have grown well during the quarter. As far as price of VAM goes,
the consumption rate was about $975, which in the second quarter was $920. So, from $920 in the quarter ended September 2017, it increased to $975 in the third quarter, but I would also like to add that because of some appreciation in the Indian Rupee, it has partially mitigated the impact of this increase.

Gunjan Prithyani: What is it currently? Is it in the same range or is it appreciated further?

Apurva Parekh: I think it has slightly appreciated further from this. It is around the $1000 level now.

Gunjan Prithyani: Those supply shutdowns, which you have mentioned in the September quarter are those now stabilized or they back into operations for VAM?

Apurva Parekh: No, the VAM supply situation has improved, so after the significant shutdown, which was linked to Houston and all, that situation has improved from then. So, the supply situation has clearly improved from there, but at the same time there has been a good appreciation in crude and that has kept the prices high.

Gunjan Prithyani: On the ad spends if you can give a sense because last quarter it was lower right?

Apurva Parekh: Yes.

Gunjan Prithyani: Ad spends in price hikes, which you have taken in this quarter?

P. Ganesh: It is about 3.6% of net sales and our normal range is between 3.5% and 4% of net sales.

Apurva Parekh: By ad, he means advertising and sales promotion expense, so it is about 3.6% of net sales and our normal range is 3.5% to 4% of net sales. It was unusually low in the second quarter, but during this quarter the spend has been normal between 3.5% and 4% and on a full year basis, our aim is to have a spend in that range.

Gunjan Prithyani: Got it and did you take any price hikes during the quarter?

Apurva Parekh: We have taken price hikes in a few products where there has been a significant increase in input cost, so in some products the raw material cost increase has been high, one example of that is solvent base, rubber base adhesives where the cost of rubber has significantly increased, so there has some price increase in this product during the year.

Gunjan Prithyani: The quantum of that would be?
Apurva Parekh: The quantum of that would be I think between 5% and 10%.

Gunjan Prithyani: Got it. Thank you so much.

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

Rohit Kadam: Sir, thanks for taking my question. Sir, coming to your gross margins both crude and VAM are kind of up sharply over the last six months and I am kind of looking at a gross margin which are flat. Sir how do we understand this, and I do not see any major pricing involved because your volume growth is still ahead of your value growth, so how do we then look at your margins, gross margins going ahead given the current input cost inflation?

Apurva Parekh: There are a couple of factors. One factor is clearly sale mix, our domestic, Consumer and Bazaar business has better gross margin than the rest of the business and it has done much better as you can see from the segment accounts. Even within the segment accounts of Consumer and Bazaar, our domestic business has done better, so that is one factor. Second, the actual gross margin does not get fully reflected because after the introduction of GST, there is a change in reporting, compared to the past. For example, in trading products, earlier, the excise was billed into the price and in the cost, but now, because of GST, it is excluded from both cost and the selling price. So, there are some minor differences in the reporting of certain products like that which has also had some impact, but on a comparable basis, if we were to clean all that up, the gross margin may have deteriorated by around 1% and partially the rupee appreciation has mitigated some of the impact of increase in VAM and crude cost.

Rohit Kadam: Got it Sir. That is helpful. Sir, one more question, on the waterproofing side business, which is sort of more linked to housing construction kind of demand, any trends you want to call out there because even when I look at your Percept plus Nina together they have sort of this year grown at 20% plus with the margin expansion, so is the Dr. Fixit portfolio also showing some solid signs of turnaround?

Apurva Parekh: As I answered earlier to a question from Gunjan, our waterproofing business has had good growth rate in the third quarter. Overall, in the construction industry, some of the new construction especially in larger city continues to be under stress; however, in India, construction is very broad activity, a lot of single-storey construction, a lot of construction in smaller sizes are doing little better. So new construction has some stress however, overall situation appears to be improving along with other improvements in the economy. As far as
Nina and Percept is concerned, both have a small base and some of the growth is also because of the initiatives that we have taken to improve our presence in the market, so Nina and Percept growth cannot be linked to the growth in that sector.

Rohit Kadam: Got it Sir, thank you that is very helpful.

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 related to the service portfolio which is Dr. Fixit Nina and Percept, so given that Pidilite is a market leader, so what are the initiatives being taken to ensure that the usage increases both in the Tier 1 and Tier 2, Tier 3 cities how do you see this whole market growing say in the next one to two years?

Apurva Parekh: I will answer this separately for our waterproofing business and then for our servicing business. In our waterproofing business, the main focus is to increase the awareness of our products as the consumption of this product is through retail channels and happens across India in bigger and smaller towns. So, our whole focus here is to educate the contractors, educate the applicators, educate the homeowners so there is greater consumption of the waterproofing chemical in the retail channel. We have also done significant advertising via a campaign with Amitabh Bachchan over the last year. That has also had a positive impact. So, we have taken several initiatives in terms of distribution, in terms of brand building, in terms of below the line activities. So, all these activities are towards increasing the sale of waterproofing products through the retail channel. This is the Dr. Fixit business. As far as Nina and Percept are concerned, they are service companies and they largely target the larger builder segment as well as offices and some infrastructure projects. So that is very different dynamics. There, as I said earlier, there is still some stress in the large builder segment; however, we are making lot of effort to increase our share or presence in this market. We are doing lot of business development activity and we are trying to convert a lot of users to our products and services. So that has helped in the growth of Nina and Percept.

Anshuman Atri: Sir, second question is regarding the raw material. In the raw materials we have seen some disruption because of these Chinese winter cut so these will end in March, do you expect the supplies to improve and the price is to cool off with assuming crude does not move up further significantly?
Apurva Parekh: We would not like to predict this as there are many factors at play. There was a lot of difficulty because of the crisis in Houston but that situation is improving. A lot of factors are in play including crude prices, including the demand and supply scenario. Sometimes shutdowns can happen at a supplier, so we would not like to predict what would happen to raw material prices; however, wherever there is a need, whenever we feel there is an increase in raw material prices, which is significant and over a longer period, we have been able to pass on these increases.

Anshuman Atri: Thank you Sir and all the best.

Moderator: Thank you. We have the next question from the line of Kishore Kumar from Karvy Stock Broking Limited. Please go ahead.

Kishore Kumar: Thanks for giving this opportunity. Sir, I have a few questions. One is I just want to know the volume growth of Consumer and Bazaar product consolidated basis Y-o-Y and industrial product?

Apurva Parekh: In Consumer and Bazaar products, as we covered in our opening comments, there is a 23% growth in volume and mix and an 18% growth in volume and mix of Industrial products for the quarter.

Kishore Kumar: So, it that on a consolidated basis?

Apurva Parekh: This is on a standalone basis. Our standalone is significant, so this is on a standalone basis.

Kishore Kumar: Second question is to Industrial product only, so in that could you give some sense on who and all are the major competitor on Industrial products in India?

Apurva Parekh: In Industrial products, we have several product segments, several industry segments and there are different competitors in each segment. So, in our organic pigment business, we have competition from players like Sudarshan, Clariant, Meghani and others. In our Industrial Adhesives, there is a different set of competitors, including companies like Henkel. Our Industrial Resin Business also had competition from many multinationals as well as from small and medium sized Indian companies. So, our industrial business is composed of several different product segments and end-user segments and each one of them have some larger or multinational type competitors and some medium and small competitors.
Kishore Kumar: One question is guidance on taxes because are seeing here in Q3, like in this three quarters, they are around 33%, so what is your guidance on tax rates? Second is, is there any capex plan for upcoming year?

Apurva Parekh: So, nine-month tax rate is about 32%. So, for the full year we expect our tax rate to be in that range. On CAPEX, we have a regular capex plan both in terms of increasing our capacity, and setting up new manufacturing plants, so capex is a continuous process for a growing company. So, we have normal capex for every single year.

Kishore Kumar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Aditya Makharia from Motilal Oswal Asset Management Company. Please go ahead.

Aditya Makharia: You have a multiple distribution channels for various products, I was just wondering how much of your products are sold through the paint channel if you were take that as a percentage of your overall sales?

Apurva Parekh: In paints there are two types of outlet, pure paint outlets where we will have very little sales and then there is paint hardware where we have reasonable amount of sales, but overall at a company level it is not a very significant figure.

Aditya Makharia: Thank you.

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

Nitin Bhasin: Sir, you know you have mentioned in the earnings release that you acquired a small company also during or approved on January 5, 2018 could you just help us understand where does this go, does it go to Consumer and Bazaar and is it like a new product altogether or is related to some existing products, etc. if you could just explain on this business and selling mechanism?

Apurva Parekh: This is a company called CIPY whose acquisition we are hopeful of completing by end of February where we will have a 70% stake in that company. There are certain procedural matters ongoing right now, but we are hopeful on concluding the acquisition by of end February. Now CIPY is a good interesting and innovative company. They have good
portfolio products including polyurethane, polyurea, and epoxy. It is in a segment called floor coating and these floor coatings are used in industries like factories. They are used in hospital and healthcare kind of environment and they also have an application in buildings, malls, and other places, so these are basically coatings, which are applied on the floor and it has several properties, which are required in some of this kind of application, which I have just said earlier. So, they have very good product technology, some of their technology they are fairly good in the Indian market and this is similar in a way to Nina and Percept type of a segment from where our consumers would be industrial units, healthcare facilities, and builders on the construction segment.

Nitin Bhasin: Sir, would this is like a product sales or a service sales sort of mechanism?

Apurva Parekh: It would be product sales. Some services they also do on an apply mix basis where they take up the whole application job but they also sell the product to other applicators.

Nitin Bhasin: And any size indications like under Rs.50 Crores or Rs.100 Crores of topline?

Apurva Parekh: We have given that detail in the release that at the time of acquisition - the topline is around 100 Crores.

Nitin Bhasin: Can it go to 100% or the 30% will remain with the existing promoters and they will be the existing management?

Apurva Parekh: So, currently they will continue to hold 30%. The managing director of that company, he will continue with us. He will ensure that we have a good transition and we grow. He is a very capable person. He has started this company and brought it to this level, so he will continue to be with us in this capacity.

Nitin Bhasin: Second question would be around the change in the entire logistics or market reach strategy given the GST, so now with about six months, seven months behind and all these changes going on, any meaningful changes in the entire distribution network if you could just take us through or key changes that have been made?

Apurva Parekh: As far as our own network goes into in terms of manufacturing and warehousing, we may make some changes, but the final plan is under development once we are ready with it we will roll it out. Really there would be some changes and we are about to formulate and then we will move forward with implementation.
Nitin Bhasin: Should be see the internal changes not the market changes in terms like wholesalers or distributors or retail points etc., all that is not to be that much but your internal changes that are yet?

Apurva Parekh: All that is part of the process. For example, expanding reach or increasing our distribution are important initiatives and with or without GST those are important things.

Nitin Bhasin: Okay and the last question would be in terms of the international businesses, where do you see the next six months or nine months sort of little bit more headwinds continuing, or which businesses could improve, just take us through near term outlook on the overseas performance?

Apurva Parekh: In our international business, our focus is primarily on SAARC, which is Bangladesh and Sri Lanka. These are two both very good businesses and both have good market position in respective countries. So, we expect in the medium to long-term our units in Bangladesh and Sri Lanka to perform well and to grow at good pace. In addition to that, our focus is also in Middle East and Africa. We need to get some of the things right there, but these are important markets for us. The markets have some similarity to India and we have now got several years of experience in this market, so we also plan to continue to focus on that. We need to do some work, we need to get some things right, but these are also good opportunities for us.

Nitin Bhasin: Okay, one of the key segment is the others and if you see the others EBITDA has turned from the loss of about Rs.1 Crores to about Rs.6 Crores this year, so is it like operating at one of these best numbers right now or is it others just to balancing figure here?

Apurva Parekh: It is not very significant. It is a one off sale. So, I think on “others”, you should not give it too much importance.

Nitin Bhasin: Okay, I will come back in the queue if there are no more questions and if I get a chance. Thank you.

Moderator: Thank you. We have the next question from the line of Kuldeep Gangwar from ASK Investments. Please go ahead.

Kuldeep Gangwar: Thanks for taking my questions. Small one, why the employee cost growth had been relatively lower, any particular reason like only 7% in the standalone over there?
Apurva Parekh: No particular reason. It could be due to some provision related thing, but no particular reason. I think you should not really look too much into the quarterly number for staff cost; the year-to-date number is more reflective.

Kuldeep Gangwar: Okay and in consolidated other operating expenses, is it because of the divestment you had done or like it had down only on 8% or so?

Apurva Parekh: Which number are you referring? Can you repeat the question?

Kuldeep Gangwar: Other operating expenses in consolidated, other expenditure?

Apurva Parekh: What is the question on that?

Kuldeep Gangwar: The growth had been 8% Y-o-Y vis-à-vis in the standalone it had been close to 20%?

P. Ganesh: These expenses are not necessarily directly proportional to sales. If you look at growth for nine months, it is actually even lower given that the sales growth for the quarter has been significant, which is why you are seeing some amount of uptick here as well.

Apurva Parekh: For nine months if you see standalone is 640 to 674 and for consolidated, 803 and 811, so it is not significantly different.

Kuldeep Gangwar: Basically a timing issue you are saying?

Apurva Parekh: It is timing, it is not significant, if you look at the difference Rs. 34 Crores in standalone and some Rs. 8 crores in consolidated, so it is not a significant difference.

P. Ganesh: They are not directly proportional to sales.

Kuldeep Gangwar: Okay, got it. Thanks a lot.

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

Tejas Shah: Thanks for the opportunity. If I look at your last four, five years’ number there used to be trend that we used to deliver the best quarter in the first quarter and then it is used to gradually decelerate, but somehow that has not happened this year so far. So, is it because of all the disruptors that we had this year or because of all the changes and acquisitions that
we have done and launches, the seasonality part of the portfolio is coming down over a period of time?

**Apurva Parekh:** The first quarter this year could not have been largest due to the implementation of GST from July 1. In June we had inventory collection at channel partners and we had declined in sales year-on-year during the first quarter. So, this is the reason for the first quarter not being the largest quarter

**Tejas Shah:** Okay, even after all these launches and acquisitions that we have done, the first quarter bias will still remain as the number, is that a correct understanding?

**Apurva Parekh:** It has nothing to do with launches or acquisitions. Generally, in our case, the trade reduces their inventory towards the end of the year. We do not like to push stock or anything. So, there is some inventory collection, which happens towards March end, so that has some favourable impact in the first quarter for some businesses like waterproofing or some of the other products, where there is some amount of seasonality, the sales normally go up. There is favourable impact from seasonality to some extent in the first quarter, not a huge impact and there is a benefit of some channel inventory correction which then comes back to normal levels during the first quarter.

**Tejas Shah:** Sure, this helps Sir. Second if I go back to your commentary two, three quarters back, we clearly stated out that first priority would be to revert back to 15% kind of growth trajectory and if we are willing to sacrifice margins for that so just wanted to know our thought on the trade of between growth and margins how it stands today on that point?

**Apurva Parekh:** No. Our thought continues to remain the same. It is important for us to achieve a good topline growth while operating in a margin band, which we are comfortable with. As I have shared earlier both from a gross margin or a net margin point of view we would like to operate within the band. So, within that band some correction can happen but otherwise the objective is to accelerate growth while remaining within a particular gross margin band that we are comfortable with and that thought still continues.

**Tejas Shah:** Would this quarter’s margin be at the upper end of that band?

**Apurva Parekh:** Yes. This quarter margin is at a comfortable level. I would not call it the upper end, but this margin is comfortable. It is within that band towards the upper end.
Tejas Shah: Sir lastly if you can help us to understand and I am pretty sure that there are a lot of competing opportunities for the captive, so in that scenario why we went for the buyback, just wanted to understand the rational for buyback?

Apurva Parekh: There is no competing situation of capital for us. We as a company have good cash accrual, good cash flow, we generate significant cash and we make sure that the proper cash request of each business is properly funded. So wherever we see that there is a good use of capital, those businesses do get the capital that they need. Our growth is not constrained by the need for capital; however, as a company we are generating adequate cash and once you generate enough cash, we have to consider giving it back to the shareholders as one of the options. So, the board deliberated on our cash position and felt that this is an amount that we can comfortably give back to the shareholders.

Tejas Shah: Just one clarification, are promoters going to participate in this buyback or that would not be the case?

Apurva Parekh: Promoters do intend to participate in the buyback.

Tejas Shah: Thanks a lot Sir and all the best.

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

Avi Mehta: Sir just wanted to get a check on how the inventory levels in the channel have behaved because you had said that the wholesale inventory level remains in the end of the second quarter you can highlighted that remains under pressure, has that gone off, is it back to the pre-GST levels?

Apurva Parekh: We do not have that exact information. What I give you will be more based on the feel because we do not have the actual figures of the inventory that the wholesalers carry, they are independent entities; however, it has improved in the first quarter. After the GST the inventory level had significantly corrected and there is some improvement from those levels.

Avi Mehta: Okay and there has been some kind of pickup or improvement from that?

Apurva Parekh: Some improvement is there, yes.
Avi Mehta: Okay and Sir secondly on the VAM pricing, you said that this quarter was about 975, I recollect that even the last quarter we had indicated a 1000 kind of mark so is this like typical volatility that happens, we are seeing up and down movement, it is not a kind of structural movement upwards, is that we are fair understanding at least last quarter that is how it was?

Apurva Parekh: Last quarter means in Q2, our average consumption rate is about $920 or so, which has moved up to about $975.

Avi Mehta: You had said that end of September was about 1000 that is what you had said I thought that is why I was just trying to understand that range is where it kind of goes?

P. Ganesh: I guess you are referring to the procurement price, so that is the current prevailing price because what comes into consumption is also the stocks that you are holding.

Avi Mehta: Okay, thank you very much. That is all from my side.

Moderator: Thank you. The next question is from the line of Anubhav Sahu from Money Control. Please go ahead.

Anubhav Sahu: Thanks for taking my question. I had basic questions regarding sourcing of Vinyl Acetate Monomer, so basically want to understand the supply dynamics of it and how much China contributes to this market and what are the tie-ups with the sourcing partners?

Apurva Parekh: There are several manufacturers of Vinyl Acetate Monomer in the world and we work with most of those suppliers. The suppliers are in China, Singapore and even in Europe and we are in touch with most of the suppliers and the sourcing or availability of VAM has never been an issue.

Anubhav Sahu: What percentage would be important? Is 100% or part of it is domestically procured as well?

Apurva Parekh: All the VAM, which comes into India, is imported, so there is no VAM manufactured in India now.

Anubhav Sahu: Okay and what percentage globally I mean as far as the VAM market is concerned, how much share would China be having, any idea?
Apurva Parekh: I do not have that figure with me.

Anubhav Sahu: Sir regarding the tie-ups with the supply partners, so what kind of pricing arrangements do we have in generally is it monthly reset, which happens with the pricing thing or how does it go?

Apurva Parekh: There is no long-term contract of VAM prices. The VAM prices keep on fluctuating and we do not have any long-term price contract because it can go either way. So we buy from them on a month-to-month basis, but we have deep relationships with all suppliers and sourcing of VAM has not been a problem.

Anubhav Sahu: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank Of America. Please go ahead.

Prasad Deshmukh: Good evening. Two questions. Firstly, if the raw material prices keep going up, other than price increase are there any offsetting cost initiatives that you guys are taking up like without taking price increase probably things can be balanced?

Apurva Parekh: Yes, as a company we are taking a deeper look at cost. We have hired Accenture as a consultant. They are doing a project for the last six months or so and we are looking at all of our expansion in terms of manufacturing and related expenditures and there is always room to mitigate some of this cost. So we are working towards it.

Prasad Deshmukh: Are there any in-house targets?

Apurva Parekh: There are in-house targets but I would not like to share it. All I can say is that we are focused on a particular target and trying to achieve that.

Prasad Deshmukh: And the source of the cost saving, or it is like across the board?

Apurva Parekh: It is in all areas from a change in the design or some of the packaging material to change in the manufacturing process. Think of it as a broad-based project and Accenture has a deep experience in this so they are looking at all the cost factors and trying to identify sales.
Prasad Deshmukh:  Sure and second question in the adhesives market are you seeing any signs of market consolidation I mean unorganized to organized?

Apurva Parekh:  I think it is too early to talk about any consolidation.

Prasad Deshmukh:  So would they also have grown at similar I mean obviously you may or may not know but in your opinion, would they also have grown at similar level?

Apurva Parekh:  I would not like to give an opinion on what could have been the growth of other players in the market.

Prasad Deshmukh:  Thanks a lot.

Moderator:  Thank you. The next question is from the line of Mayank Bansal as in Individual Investor. Please go ahead.

Mayank Bansal:  My question is what is the reason for weak overseas performance?

Apurva Parekh:  Can you just give question what is the reason for weak overseas performance?

Mayank Bansal:  Yes Sir.

Apurva Parekh:  There are some subsidiaries that have underperformed and details of that are on the website in our investor letter so that can give you an idea. There are different reasons - factors like for example, in Brazil the economic situation continues to be weak. That has had some impact. In our Bangladesh and Sri Lanka subsidiaries, while their topline growth has been good, and we believe they are very good potential markets of the future, we are investing in those markets so the SGA cost has gone up and has had some impact on EBITDA.

Mayank Bansal:  Okay so are we gaining market share in these markets or this is due to overall economic condition this downturn?

Apurva Parekh:  Within the markets in Bangladesh and Sri Lanka, we are performing well. In Bangladesh and Sri Lanka we have very good businesses, very good branches and we are systematically growing in those markets, quarter-to-quarter performance can sometimes not be in line with that; however, these are the markets when we are making good progress with our brand, with our infrastructure, manufacturing etc., so in those markets, the situation is very
different than a market like Brazil where the economic condition has been uncertain. In Brazil, our focus has been to eliminate losses and if you see from last two years now, we are not incurring any losses in that market. In USA we had a business, which had very high growth for two to three years but there was the trend change of adult coloring market and hence there has been a sales correction. So, all markets are very different, but I think our key focus in the international market is in the SAARC region, Middle East, and Africa and in each of those markets we are making some progress and the results will follow.

Mayank Bansal: Thank you Sir.

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

Nitin Bhasin: If you look at the last two quarters especially this quarter the kind of revenue growth that you posted roughly at about 20% but if you look at the nine month number where you also said when you look at little longer dates also 9%-10% so whilst this quarter could be looking good because of last year and otherwise now when you speak to your marketing team what sense are we getting? Are we going to be more easily closer to about 15% to 16% growth for the next year or so or we are saying that this 20% could be maintained for at least one more year before the base effect comes into play?

Apurva Parekh: Nitin, we do not talk like that with our market team and I cannot share any kind of guidance in terms of what see as the growth rate in the next quarter etc. As I said earlier, we do see steady improvement in the economic scenario; however, we need to see a couple of more quarters before we get a sense of what would be the new normal growth rates.

Nitin Bhasin: Okay sure and in terms of the product launches is there any way to get a sense that new product launches in the last one year or two years what sort of proportion is that becoming now of your topline, any sense on that because I know that you keep on launching new products but any sense for all of us?

Apurva Parekh: Again, we know that percentage, we do not share it but I will give you a good qualitative idea. When we launched a couple of products in the Fevicol division, one is called HI-PER, which is the very next generation kind of adhesive, which minimizes the formation of bubble while doing wood working so that product has had a very good response and it is contributing well to our business. There is another product called Fevicol HeatX, which is again an adhesive, which sets very fast and that again has had a good response so that way
in all our businesses, we have done new launches and some of them have had a good response.

**Nitin Bhasin:** Fevicol these products are like extension of the existing brand of Fevicol application becomes even more specific and more technical something, which all together new like something I was reading about it that you have launched some roof insulation products or something of those lines, any sense on such new generation products?

**Apurva Parekh:** No that is also a product, which is part of construction chemical segment. In the construction chemical segment, there are different products with different application, so it is one of the newer products but the product will take time. Typically, in construction chemicals, the gestation period is very long because you have to change the habits of the consumer.

**Nitin Bhasin:** Got the perspective. Thank you.

**Moderator:** Thank you. The next question is from the line of Arun Baid from BOB Capital. Please go ahead.

**Arun Baid:** Historically you had always been saying that the margins are very difficult to sustain now the tone, which I think is that these margins are sustainable. Is my reading correct Sir?

**Apurva Parekh:** Yes, you are right that they have sustained despite our saying that they may not sustain but we are at the higher margin band, but margins depend on several factors. The primary factor is the sales growth so if there is robust sales growth, then you can have a better EBITDA margin despite some erosion in gross margin. So, we still maintain that our gross margin and EBITDA margin are fairly high towards the upper end of what we have ever had and hence some correction is possible and as we have shared earlier our primary objective is to accelerate sales growth but while operating within a certain EBITDA margin band.

**Arun Baid:** Okay Sir if I asked the question in different way, assuming your medium-term guidance of that 15% which I looking at stays then because it will have a volume growth there obviously for sure then whether these margins are going to be broadly this range?

**Apurva Parekh:** Firstly, that is not our guidance. 15% is what we try to achieve. It is not guidance, so I want to clarify that. First point is that our targeted growth rate is our historic growth rate of 15% so that is what we always say we aspire towards or we desire to get back to those kind of
growth rates, which we have achieved over a 10-year period. Second, it is a very, very
difficult to predict or project our margins on quarter-to-quarter kind of basis. What we like
to do is accelerate our topline growth while operating in a comfortable EBITDA margin
range that we as a company are comfortable. We have always had good margins. Our
EBITDA margins are possibly better than most of our peers and hence we want to continue
to operate at a good EBITDA margin and accelerate sales growth, but our current EBITDA
and gross margins are towards the higher end of our band.

Arun Baid: Sorry if understand I missed that. What is the brand if you can give some broad indication?

Apurva Parekh: The EBITDA margin band of about 20%-22% is what we are comfortable with. Currently,
we are at about 28%.

Arun Baid: Thank you very much Sir. This was helpful.

Moderator: Thank you. The next question is from the line of Kuldeep Gangwar from ASK Investments.
Please go ahead.

Kuldeep Gangwar: Sir in Consumer and Bazaar product segments at industry level, what would be the share of
unorganized desk both in volume and value terms any estimate regarding that?

Apurva Parekh: You say entire Consumer and Bazaar as a segment?

Kuldeep Gangwar: So overall market what would be the unorganized players accounting for overall industry
level?

Apurva Parekh: If you were to look at the entire Consumer and Bazaar, again very, very difficult to predict.
We do not have a fair or good estimate on that, but it could be in the region of say 25%-30%. Again, it is difficult to define what is unorganized. There are smaller players and then
there are completely unorganized, so it is difficult to estimate.

Kuldeep Gangwar: So just smaller players are completely unorganized put together in value terms you are
saying 25%-30% or volume terms?

Apurva Parekh: Could be when you look at entire Consumer and Bazaar as a segment.

Kuldeep Gangwar: Both volume and value are you saying close to 25%?
Apurva Parekh: It is difficult to say what volume and what value. It could be in the range of 30%-40% if you put all small players and unorganized players.

Kuldeep Gangwar: Sir second question is regarding your volume growth so what is the most important driver for your business whether it is increasing the distribution range or increasing the number of products on a particular dealer level?

Apurva Parekh: Both are not the main drivers. The main drivers cannot be just distribution in making our products available. Growth drivers are multiple - the economic scenario, each end user segment, consumption in those segments, the overall macroeconomic scenario, other factors related to our advertising, brand building, new product, innovation, etc. Some of those factors are more important than distribution.

Kuldeep Gangwar: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Apurva Parekh: Thank you everybody for participating in the call. Thank you and have a good weekend.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes this conference. Thank you all for joining us. You may disconnect your lines.

(This document has been edited for readability purposes)