



“Pidilite Industries Q4-FY12 Earnings Conference Call”

May 25, 2012



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Pidilite Industries
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Moderator

Ladies and gentlemen good day and welcome to the Q4 FY12 Earnings Conference Call for Pidilite Industries, hosted by IIFL Capital Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode; there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * followed by 0 on your touch tone telephone. I would now like to hand the conference over to Mr. Radhakrishnan, thank you and over to you sir.

J. Radhakrishnan

Thanks Shyma. Good afternoon, ladies and gentlemen, on behalf of IIFL Institutional Equities, I would like to welcome you all for the Q4 FY12 Earnings Conference Call of Pidilite Industries. From the management we have with us Mr. Sandeep Batra, Director Finance of Pidilite Industries. I would now like to hand over the floor to Mr. Batra for his opening remarks. Over to you sir.

Sandeep Batra

Thanks Mr. Radhakrishnan and good afternoon to everybody on the call. I will give you an update on the Q4 and full-year performance which was considered by the board at its meeting yesterday and I will start with the performance for the quarter. Consolidated net sales grew by 14.3% over the corresponding quarter last year and earnings before interest, tax, depreciation and amortization at 1035 million was up by 26.1% over the same period last year. Earnings before interest and tax and the pre exceptional items grew by 36.8% profit before tax at 822 million was higher than the same period last year by 207 million.

A look now at the standalone performance for the quarter. Net sales grew by 16.3% of the same period last year. As one would see the consumer and bazaar categories grew by 22.3% in the quarter which is in line with the sales growth for the entire year. However, the industrial products segment had much lower growth at 5%, largely because of slowdown both in India as well as in export market. However, this growth rate of 5% is better than the growth rate in the immediately preceding quarter where we have seen contraction in export sales. For the company material costs as a percentage to sales was lower than the immediately preceding previous quarter by 3.69% points this drop was because of lower commodity prices and the strengthening of the rupee versus the dollar in the period January to March however, in comparison to the same period last year material cost to sales is higher by 63 basis points. Expenses other than the material costs during the quarter were higher than last year by 11.5%, largely because of inflation in wages and other expenses, part of course of which was offset through some cost reduction initiatives. Non-operating income during the quarter was higher than the same period last year by INR68 million because of higher investments income. Consequently, the EBITDA was 30% higher than the same period last year and in absolute terms, was Rs. 1109 million. We had in the last quarter is taking the advantage of the

relaxation given by the Ministry of Corporate Affairs regarding the implementation of Accounting Standards 11. And continuing with the same practice all movements on account of mark to market changes for long-term monetary assets have continued to be amortized and as on 31st of March and amount of Rs. 55 million is carried forward in the balance sheet, which will be amortized between April 2012 till 7th of December 2012 it is the date when the foreign currency convertible bonds and will either be redeemed or be converted. Profit before tax and before exceptional items was 929 million in the quarter, higher than the same period last year by 229 million. During the quarter, we made an additional provision for diminution in the value of our investments in Pidilite Middle East Limited which is a 100% subsidiary of the company. In March last year we had made an impairment provision of Rs. 250 million on account of our investment in PMEL and this quarter an additional provision of Rs. 29 million has been made and this is because of the continued underperformance of the subsidiary of Pidilite Middle East, namely Jupiter Chemicals which operates in Dubai. Because of the impairment provision that we had done last year, it shows a significant improvement in our profit after tax in the quarter from 292 million last year to 710 million this year. However, if one were to adjust for this exceptional item in both the quarters then the profit after tax in the current quarter is higher than the last year by 36%.

In the meeting yesterday, the board has recommended a dividend of Rs. 1.90 per equity share of Rs. 1 for the year 2011-12 this dividend is subject to approval by shareholders at its annual general meeting. This dividend compares with Rs. 1.75, which was declared last year and this would translate into a payout of about 33.5%. Consequent to the year also having been completed, I will just touch upon the performance of the entire year. So our sales crossed the 3000 crores mark on a consolidated basis, and were Rs. 3.1 billion and which represents a growth of 17.6% over the same period last year. As we have witnessed the second half of the year which is October to March was lower than the first half, largely because of global as well as Indian economic conditions. Material cost to sales for the entire year was higher by 283 basis points and EBITDA before exceptional items, was higher by 7.36% for the entire year.

A quick look at the segment wise performance. As I mentioned the Consumers and Bazaar products have grown by 22.3% in the quarter and 22.8% in the year. The PBIT in this segment, as a percentage to sales in the quarter has improved to 19.7% as compared to 18.2% last year. However, for the full year the segment PBIT is 22.9% versus 24.9% last year. Industrial products sales grew by 5% in the quarter and segment PBIT was 12.3% versus 16% in the same period last year. For the full year, the turnover in this segment has grown by 9.5%, but segmental PBIT has dropped from 16.5% last year to 12.9% this year, mainly because of the increases in input costs, which could not be passed on by way of price increases.

A quick look at the performance of our overseas subsidiaries. Sales measured in terms of constant currency was lower than last year by 3.3%. However adding the impact of translations, sales are lower than last year by 4.2% for the quarter. The performance of the

operations in South America, namely the Brazilian subsidiary continued to be facing a lot of headwinds and as a result EBITDA for the quarter was minus 64 million as compared to a 1 million positive EBITDA in the same period last year. The operations in North America had marginal decline in sales for the quarter and EBITDA was 4 million as compared to 10 million last year. Other subsidiaries, be it in Middle East or in South East Asia have reported improved sales as well as improved EBITDA with EBITDA from minus 14 million coming down to minus 11 million in the current quarter. Performance of overseas subsidiaries for the year in North America sales have grown by about 4% and EBITDA has grown by about 10%. South America sales has largely remained flat for the year, but the EBITDA performance has worsened from a plus 34 million last year, to a minus 93 million this year and this has resulted in the aggregate to EBITDA of our overseas subsidiaries to decline from a plus 45million last year to minus 35 million last year which obviously means that the improved performance in the smaller subsidiaries in Middle East, Africa and South-East Asia has been more than offset by the poor performance in Brazil, so that is all that I had to share is as far as the performance for the quarter and for the year was concerned. Happy to take questions now.

Moderator

Thank you very much sir. We will now begin the question-and-answer session. The first question is from Prashant Poddar from Invesco Hong Kong. Please go ahead.

Prashant Poddar

Good afternoon Sir, thank you very much for taking my call and congratulation for a good set of numbers. The first request is that the press release that we give to BSE. It is completely unreadable. I am getting confused with the numbers 6 and 8 very frequently all through the so punching the numbers is very very difficult. So if you could do something like company presentation itself that we could because I think but the presentation are better readable, but these formats are not readable, that was the request. In terms of questions, the number that you mentioned about the international subsidiaries that together the difference at EBITDA level between the last years this quarter's performance and this year's this quarter performance is around Rs. 8 crore while if I look at the difference between the EBIT level performance of Consumer Bazaar business alone between the consolidated and standalone this time is a negative Rs. 8 to 9 crore that the contribution is negative at Rs. 9 crore, last year it was a positive Rs. 18 crore. So the difference looks like much higher? What is this on account of?

Sandeep Batra

No it is not like that. If I see the segment wise reporting last ...

Prashant Poddar

PBIT for Consumer Bazaar business was 74 crore rupees last year?

Sandeep Batra

I will tell you why it was because last year we had taken this exceptional provision that I had told you about the impairment provisions that we took for our investments in Pidilite Middle East so last year we had taken an impairment provision of 25 crores so is that has an impact on the stand-alone results of Consumer and Bazaar, but it has got no impact on the consolidated results. So if you then say that last year 74.36 crores PBIT and you add another 25 crores there

you will get 97 crores, which plays with say in this year you have to add 3 crores in this quarter. Am I able to explain to you? You have to add 25 crores to the stand-alone results of last quarter and this year you have add 3 crores

Prashant Poddar At consolidated level there is no impact?

Sandeep Batra No, there is no impact.

Prashant Poddar Correct. So at consolidated level if I look at EBIDT level again there is a decline from last year which means that even the domestic business has not done much better than last year in terms of sequentially, though it has improved?

Sandeep Batra Yes, it has not, you are correct because the PBIT for the year is 22.9% is this year versus 24.9% last year.

Prashant Poddar Just an observation revenue growth of 18% which has come in Consumer and Bazaar business for the current quarter?

Sandeep Batra No revenue growth in Consumer and Bazaar is 22.3%.

Prashant Poddar Oh, I was talking about consolidated level. How much is the contribution from volumes and pricing, let us say at domestic level only?

Sandeep Batra At domestic level, I would say it would be half and half, so for 22% is the total top line increase of which half would be volume and roughly half would be price.

Prashant Poddar Okay so how is the pricing, the pricing as well as the cost environment. So going forward should we see improvement in margins in Consumer and Bazaar business?

Sandeep Batra I think the biggest uncertainty has been on the currency. So we have about nearly one third of our raw materials are imported and plus there are several which are import parity pricing and the biggest uncertainty or inflation will be in that category where because of the rupee having weakened from 51-52 levels in March to around 55-56 levels so that 7 to 8% depreciation in currency we will have a negative effect on our input cost, now in terms of how it will play up in the results it is very difficult to say because we would have some amount of protection because of inventory, some amount of protection because of forward cover being taken, but if this trend of cost remains then till such time we take commensurate pricing actions there would be some amount of pressure on the margins.

Prashant Poddar What are the price increases that you have taken in the last three months?

- Sandeep Batra** Last three months we would not have taken is very major price increases bulk of the price increases generally get implemented in the first quarter which is April-May-June.
- Prashant Poddar** Thank you very much.
- Moderator** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities, please go ahead.
- Kaushal Shah** Thank you for the opportunity. I have two questions on the industrial products we have seen some improvement when I compare the immediate preceding quarter, the December quarter we have seen some improvement in terms of margins. The first question was, do you expect this level of margins around let us say around 12% kind of PBIT margins to sustain in the industrial products? The second question was related to the elastomer project, there was a report from the consol expected in the end of March or April so what is the strategy on that front now?
- Sandeep Batra** To answer your first question on industrial products certainly these margins in the quarter are itself lower than our full-year margins as well as lower than what they were last year so we would certainly like to see margins at the levels that we have enjoyed last year in this category, but in terms of when we will get there it is a very difficult question to answer because the kind of volatility that one is seeing in commodity as well as currency, it becomes very difficult to have a very stable pricing and very stable margin environment. Plus growth both in India as well as in some of the developed markets remains a bit weak and this both these factors put pressure on the profitability of the segment. To answer your second question on the synthetic elastomers project the status on the project remains what it was earlier which is that the project is still undergoing review by the board. There are certain aspects of the projects which the board wants a more detailed understanding, they want a more detailed analysis to be done and till the board takes a final call on the way forward on the project all commitment as far as the project is concerned are on hold.
- Kaushal Shah** Sir follow-up to the question on the industrial products. This quarter we have seen some revenue growth there is 5% year-on-year growth in revenues, given the current scenario that is prevailing domestically and internationally, would you expect a double-digit kind of revenue growth this year in terms of industrial products and also is it possible for you to sort of gives some kind of guidance on the margins, you mentioned that you would like to reach the 15 to 16% that you enjoyed in FY1, so is it possible for you to reach to those levels in this year or that would be still some time away?
- Sandeep Batra** As a company we do not give any guidance either on top line or on profitability, what I mentioned was that our margins in the current year are lower than they were a year back. So it would be our endeavor to get back to the FY1 kind of margins, but in terms of the time frame

of when we will get there it is very difficult to give any indication. We are all very aware of the kind of turbulent times that prevail around us. So very difficult to give any indication on what will happen.

Kaushal Shah And sir , a follow-up on the elastomer project and the consultant that was appointed have they submitted some kind of a report or that is still expected and therefore the board has not been able to take a view?

Sandeep Batra No, I think the consultant has given several updates to the board in their interaction and the board has obviously had some follow-up questions and follow-up areas that they have asked the consultant to look at and I'm not at liberty to share more details on that front, but the status on the project remains as I described earlier.

Kaushal Shah Fine, thank you sir.

Moderator Thank you. The next question is from the line of Samir Raj from Reliance Mutual Fund, please go ahead.

Samir Raj All my questions have been answered. Thanks.

Moderator Thank you. We will take the next question from the line of Prakash Kapadia from I Alpha Enterprises, please go ahead.

Prakash Kapadia Could you give us some sense on the VAM prices and what kind of inventory, we are holding and in this volatile scenario, how do we plan things or how do we determine demand and inventory, how do we take a call because the world seems to be changing very fast?

Sandeep Batra In terms of specifically how VAM prices they are within \$1050 to \$1100 currently slightly higher than what they were in January-February-March, but that we believe is may be a short-term phenomena that they are at the kind of \$1050 to \$1100 level and we have about between the company which imports VAM which is an associate company, Vinyl Chemicals between the two, we would have about 30 to 40 days inventory.

Prakash Kapadia And sir on the elastomer project can we expect some kind of direction say by in the next quarter or next 3-4 months, is there timeline where the board will decide or?

Sandeep Batra Yeah, I think the board would like to take a very considered view and when the board has to take a considered view they would like all aspects to be analyzed in great detail, so to that extent to put a time frame to the board is probably not fair. But, yes, the board is aware of the criticality of the project and therefore I'm sure the board will not take longer than what it is necessary to take a decision on the project.

- Prakash Kapadia** Okay, thank you. All the best.
- Moderator** Thank you. The next question is from the line of Paresh Jain from Max New York Life, please go ahead.
- Paresh Jain** Good afternoon just wanted a sense on what is the kind of price increase that we have taken in April-May till now because you said that you usually take price at the beginning of the year?
- Sandeep Batra** I think that exercise is currently under implementation. In the sense and it is a very dynamic situation because what would have been the baseline for taking a price increase in April, probably by the time you go out to implement the baseline has changed because the way the currency is falling so it would be may be a bit premature to give a number at this stage. Certainly we present the 1st quarter results, one would be in a better position to give you a number but as I have always maintained we are very alive to this issue of maintaining or protecting our margins, although it may be with a lag so to that extent price increases is something which actively get discussed and implemented.
- Paresh Jain** When you are saying that you are trying to protect margins. So this is at a gross level that you are talking or it is at EBITDA level that you are looking at?
- Sandeep Batra** No, at a gross margin level.
- Paresh Jain** You are looking back at FY11 types margins, if am I correct?
- Sandeep Batra** It is very difficult to give you a precise number but ideally you would like and our company to have an overall performance is in the line of FY10, FY11 in terms of the overall profitability.
- Paresh Jain** And secondly, what is our excise duty as a percentage for gross sales because that would have also increased?
- Sandeep Batra** Yes that has also increased because the rates of gone up, excise duty as a percentage of gross sales is about 6 odd percent if I just remember the number, post the hike.
- Paresh Jain** Thirdly, other expenses seem to be higher so that it is on account of?
- Sandeep Batra** Higher compared to?
- Paresh Jain** I mean if I look at other expenses, it is probably or even on an absolute basis vis-a-vis the previous quarter?
- Sandeep Batra** Previous sequential or the same period last year?



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- Paresh Jain** Sequential as well as same period?
- Sandeep Batra** Same period last year and will be is about 11.5% higher total non-material cost as compared to sales increase of 18%.
- Paresh Jain** But even as a percentage of sales if I look at close to 22%?
- Sandeep Batra** Yeah that is how it has been. Of course, in the 4th quarter is look slightly higher than normal because the sales in the 4th quarter amongst all the four quarters is the least so to that extent, percentage to sales gives a bit of a distorted number but if you look at the elements which should have gone up one of course is salary and wages have gone up, in addition to that there would be inflation in other operating costs like power, fuel, transportation cost so all that have increased. We have had volume increase so we have to shift that much more volume for sales so the distribution cost has increased.
- Paresh Jain** But this does not include any component of A&P increasing?
- Sandeep Batra** A&P in this quarter would have been lower than same period last year because last year if you may recall because of the World Cup and we had stepped up our A&P expenses in the 4th quarter of last year.
- Paresh Jain** Was in the 4th quarter or the 1st quarter last year?
- Sandeep Batra** 4th quarter.
- Paresh Jain** I mean, this is nothing abnormal as such it is more or less in line only?
- Sandeep Batra** Yes.
- Paresh Jain** If I look at the current business momentum Q4 has been good. So how would you rate that as of now, I mean, is it as per expectations or below expectation vis-a-vis last year, what is it like?
- Sandeep Batra** That is again a very difficult question to answer because certainly in industrial products the performance has been below are will past track record and certainly below expectation. As far as Consumer and Bazaar there would be some segment in that which have met our internal expectations and some which have not. So, certainly in every area there is room for improvement.
- Paresh Jain** No , what my point that post Q4 ending April- May till now we are closing towards May end so has the business environment deteriorated vis-a-vis Jan to March or has is improved?

- Sandeep Batra** Its is difficult to gives any view basis just a 50 day and I know we are very close to end of May but very difficult to analyze this two months performance and give any headline but certainly the environment outside is not getting any easier.
- Paresh Jain** And last question, how do you see the CAPEX now for FY13. Assuming elastomer is not there so just the normal CAPEX?
- Sandeep Batra** CAPEX would be similar to what we spent all of last year or so around between 125 to 150 crores would be the total CAPEX ..of course.
- Paresh Jain** Thanks a lot.
- Moderator** Thank you. The next question is from the line of Kunal Rakshit from Voyager, please go ahead.
- Kunal Rakshit** Thanks for taking my question. Firstly, just wanted to understand I may have missed the number what is the total subsidiary loss in FY12 and what is the outlook for FY13here?
- Sandeep Batra** Total subsidiary loss in terms of what is EBITDA without looking at the amortization and depreciation, EBITDA is minus 35 million as compared to plus 45 so the negative movement is around 80 million in the year.
- Kunal Rakshit** And at the PAT level what would it be because if you look at the difference between Consolidated and standalone..?
- Sandeep Batra** No, again when you look at standalone and...
- Kunal Rakshit** So if I had just for the exceptional items than it is looking at about 20 crores?
- Sandeep Batra** Yes, that is correct.
- Kunal Rakshit** And what is the view going forward in FY13 can we reduce the losses we have been trying to minimize the losses in the subsidiaries for one or two years now. So when do you see this finally making...?
- Sandeep Batra** I think if you disaggregate the overseas subsidiaries and if you look at them individually in all our subsidiaries other than Brazil the performance is far better than what it was in the previous year. It is only in Brazil that the performance has deteriorated so if you adjust that, so Brazil deterioration the higher loss of the order of about 12-13 crore if you adjust that then all the other subsidiaries are meeting their internal targets. It is only in Brazil that the....
- Kunal Rakshit** Will Brazil have improvement in FY13? What is it looking like?

- Sandeep Batra** Our endeavor is certainly to get it back in the black but is there are challenges in that country which probably I may not be able to explain on a call but, yes, we are very much aware and very much auctioning all that is required to address that problem.
- Kunal Rakshit** But anything that you can take going forward will it be as bad as 20 or could it be in the 10-5 what kind of range, do you think?
- Sandeep Batra** No, I think it will take time because the problems there are relatively more structural so it is not a one quarter or a one-off kind of a problem so Brazil will face difficult times, even in the current year, but exactly how much will the loss be I really cannot comment.
- Kunal Rakshit** And on your debt level just wanted to ask what is your debt level currently in the company?
- Sandeep Batra** If you look at FCCB whatever we have in terms of debentures, that the total debt is about 260 crores and we have cash far in excess of that so at a net level we have a negative gearing.
- Kunal Rakshit** And just wanted to understand covered the FCCB payout that would happen in December?
- Sandeep Batra** No we have not taken any cover what we had internally planned was to have used our export collection and accumulated them we allowed as exporters to keep our export realization in foreign currency so that was something that we had planned and that is what we have actively working on but that initiative has been frustrated because the Reserve Bank of India has issued a circular about two weeks back, making it mandatory for all exporters to convert their export collection into rupees immediately. So what would have served as a natural hedge for the FCCB repayments had that had happened that natural hedge has been taken away. So we are looking at what alternative actions we can take but till that time yes...
- Kunal Rakshit** And the last question is what would be the tax rate we could expect in FY13?
- Sandeep Batra** Our tax rate last year was about 25%. So in the current year, it could be about 150 to 200 basis points higher.
- Kunal Rakshit** Thank you.
- Moderator** Thank you. The next question is from the line of Yogesh Bhatt from ICICI Mutual fund, please go ahead.
- Yogesh Bhatt** Just an extension of what you just mentioned on the Brazilian subsidiary side, if I recall when we had met you had mentioned that there was some competition issue which has caused this kind of a problem, it is nothing basically related to the demand side or the environment side, would you continue still the same thing is it because of the competition, irrational behavior which is hurting us or is it the other issue also which has been cropped up?

- Sandeep Batra** I think the overall growth in Brazil also has been impacted. I think they are also facing some amount of slowdown is in that but having said that the operational the subsidiary in Brazil does not enjoy the kind of market position for example, that Pidilite enjoys in India, so it is in some of the categories it is certainly not the market leader and in some of the categories it is number two or number three or number fourth player and therefore relatively more susceptible to maybe any irrational behavior by competition or any aggressive play by competition to gain market share. So part of the reason is the market environment, be it the economic environment in Brazil or the market in which the subsidiary competes in and part of the issue is I think our internal inability to respond to that challenge in the market very effectively.
- Yogesh Bhatt** And secondly, just a book keeping question, you mentioned that you have a debt of 260 crores now in the balance sheet, which is being published yesterday, is it because of the new rules you have shifted the long-term borrowings to the other current liabilities?
- Sandeep Batra** Yeah, your point is absolutely correct. See the FCCB's were last year was classified as long-term borrowing but since they are now due in December 2012, under the revised Schedule-VI guidelines they cannot be classified as short-term borrowing, they can be classified as other current liabilities which have increased, if you recall.
- Yogesh Bhatt** Yes, that is right, 296 went to 495.
- Sandeep Batra** Yes, by about 200 crores, so that is the FCCB...
- Yogesh Bhatt** So basically you are saying 260 crore debt and 273 crore of cash, is that right number?
- Sandeep Batra** Yes.
- Kaushal Shah** Okay Sandeep thanks.
- Moderator** Thank you. The next question is from the line of Lalit Kumar from Nomura Securities, please go ahead.
- Lalit Kumar** Thank you for taking my question. Sir, most of my questions have been answered, one thing, what is your outlook on VAM prices for next 1-2 quarter, any idea on that?
- Sandeep Batra** No real outlook in that sense but as I said currently they are in that 1050-1100 range. We hope that they will fall by about \$50-\$100 to be in the \$1000 kind of a range next quarter.
- Lalit Kumar** So sir, what would be the average VAM price for Q4?
- Sandeep Batra** Average VAM price for Q4 would be about Rs.55 a kg.

- Lalit Kumar** Okay, that is all. Thank you for taking my questions.
- Moderator** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Securities, please go ahead.
- Rahul Bhangadia** Hi sir. Congrats on a good set of numbers. Sir, couple of questions, one is on the CAPEX, you said about 120 to 140 crores is the range that you described, this kind of CAPEX is a permanent CAPEX or where is the CAPEX allocation largely to, is it to the bazaar and consumer products division or to the industry?
- Sandeep Batra** That CAPEX is largely for growth, so if there is growth in bazaar consumer or if there is a capacity constraint in bazaar consumer, CAPEX will be there. If there is a capacity constraint for industrial products CAPEX will be there so it is largely to support growth.
- Rahul Bhangadia** But this is going to be an ongoing exercise?
- Sandeep Batra** Yeah, annual, I think, we will need to spend that kind of money for a capacity expansion, for sustenance, for productivity improvement so for the entire gamut of areas CAPEX would be of that order.
- Rahul Bhangadia** Sir, if we just go into a little bit history, traditionally the industrial division is a low ROI division because it is extremely volatile. So going forward would it make more sense to kind of spend more on a higher ROI pack than a lower ROI segment? Just your thought on this? And second I could not get you on your international numbers, as to what is the sale for each of the geographies that we are present? Just wanted to get some color as to what is your overall outlook for FY13?
- Sandeep Batra** Overall, to answer your question in sequence, I think every investment proposal that we have for capital, we have a measurement in terms of payback, in terms of what is the IRR on that project, what is the NPV of the investment and then a decision is taken. So it is not driven by, is it in consumer bazaar or is it in industrial products, as long as it meets the threshold of IRR, payback period and NPVs, that investment gets sanctioned and approved. Specifically to answer your questions on the sales for our international subsidiaries, yes I will tell you, for the year North American businesses had sales of 1276 million in the current year versus 1227 million last year and then EBITDA before exceptional items of 62 million versus 57 million last year. For the South American business, sales for the year was 1261 million versus 1255 million last year and EBITDA was (-93) million as compared to plus 34 million last year. In Middle East and Africa, sales was 296 million versus 199 million last year and EBITDA was minus 49 million versus (-80) million last year. South and Southeast Asia, sales was 417 million versus 339 million last year and EBITDA of 45 million versus 33 million last year. In

aggregate, sales were 3250 million for the year versus 3021 last year and EBITDA was (-35) million versus (+45) million last year.

Rahul Bhangadia Sir, my last question is any further scope of raising this payout as the cash flows are growing day-by-day and the capital intensity will not be very significant?

Sandeep Batra That is a call that the Board will take at the appropriate time keeping in mind the maintainability of the dividend and more importantly the requirement for cash within the company. So I think the Board whenever it decides the dividend payout keeps all these factors in mind and when they do take a call next time, I think they will put the dividend payout through these tests only.

Rahul Bhangadia Sir, if you allow me my last question, you did mention that we have certain internal IRR targets when we deploy capital in each of the segment especially for the industrial product business, can you share what kind of internal targets that you have for such kind of investment?

Sandeep Batra They would vary. First of all they are not segment-to-segment targets, they for any CAPEX would have to meet a target but it is not simply a matter of arithmetic. There would be certain strategic reasons also which could be involved. So it is a very involved decision, it is not only a mathematical calculation and certainly I don't think that is something that I would like to share on a call.

Rahul Bhangadia Okay, great sir and all the best. Thank you.

Moderator Thank you. We have the next question from the line of Nitin Gosar from Religare AMC, please go ahead.

Nitin Gosar Good afternoon sir. Sir, just wanted to understand what are the key factors which are impacting the industrial division and what could hold the potential to change this going forward?

Sandeep Batra I think the key factors that are impacting are certainly the industrial growth in India and we know, we all read the growth in terms of the IIP numbers, and they are fairly dismal in terms of growth. Similarly a fair amount of the industrial products get exported outside the country and we know how the overall export performance of the country has been largely because of the uncertainty in the developed markets and whatever the global economic outlook. So we are no indifferent to these parameters.

Nitin Gosar Okay and any particular sector that may help you to bounce back on the growth that you are delivering?

- Sandeep Batra** No, I think, it is rather the overall growth not so much specifically any one particular category.
- Nitin Gosar** Okay and just wanted to understand on the consol segmental breakup that you have provided, the unallocated portion of capital employed has jumped up by almost 2 times, any particular reason or what is behind those numbers?
- Sandeep Batra** Largely the unallocated capital employed includes the surplus investments that we have, all the cash surpluses that we have got. They have increased. Somewhat they were in March last year. The total unallocated increase is about Rs. 180 crore so of that 180 crores I think bulk of it will be our investments, the cash surplus that we have got.
- Nitin Gosar** Okay, thank you.
- Moderator** Thank you. The next question is from the line of Rohit Gajare from UTI PMS, please go ahead.
- Rohit Gajare** Hi sir. Two to three booking keeping questions. What would be the operating cash flow for this year that you have generated?
- Sandeep Batra** Cash certainly has been positive, the exact number I am not able to recall on the call. It has been cash positive.
- Rohit Gajare** Sir, another question I had was, the other income was rather high this quarter, last quarter there were some exceptional, one-time currency charges which came last quarter, was there any such onetime thing?
- Sandeep Batra** No, it is a function of the fact that our cash balances are higher than what they were last year.
- Rohit Gajare** So this is all interest income?
- Sandeep Batra** Largely yes, interest and whatever, dividends from debt mutual funds.
- Rohit Gajare** You have already answered this sir, regarding the raw material sensitivity to dollars, what amount of our raw materials are imported or dollar sensitive?
- Sandeep Batra** Direct imports are about a third of the raw material consumption and probably an equal amount would be dollar sensitive so very significant amount of the imports would be dollar linked.
- Rohit Gajare** CAPEX for FY12 was around 110 -120 crores?
- Sandeep Batra** Yeah, that is correct.



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- Rohit Gajare** Thank you very much sir.
- Moderator** Thank you. The next question is from the line of HR Gala from Quest Investment, please go ahead.
- HR Gala** Good morning Mr. Batra. Sir, just one question, Pidilite has always been adored by the market as a consumer bazaar product with a great brands like Fevicol, etc., and most of us were surprised when we embarked on the synthetic elastomer project involving huge CAPEX and so far as we can see we have put in about 350 odd crores. My question is that after the review if management decides to scrap it, how much of it we will be able to recoup?
- Sandeep Batra** I really have no answer to that question because it's a very hypothetical question and a hypothetical scenario; I can't really answer because we as a company have certainly not done any work in assessing that.
- HR Gala** But what are basically the issues where you said that the Board of Directors were seeking some more detailed analysis. So does it have to do with the commercial things like demand-supply and the type of price that particular product is enjoying in the commodity market or any change in the competitive scenario globally that is prompting us to keep all our commitments on hold at this point in time?
- Sandeep Batra** Yeah, I think, the Board is aware of the kind of importance, the kind of impact that the projects has as far as overall Pidilite is concerned. The Board wants to be more certain before we start the next round of commitments in that project.
- HR Gala** How much will be the total project outlay if we decide to go ahead?
- Sandeep Batra** I think that is something that the Board itself will and it is another one of the open questions for the Board.
- HR Gala** So do you think something could materialize by the end of this year?
- Sandeep Batra** I really can't give any timeline to that other than to say that the Board is aware of the criticality of the project and the decision on that project.
- HR Gala** Because I think that earlier we were contemplating that it would be commercialized by FY13, if I'm not mistaken?
- Sandeep Batra** That is correct, that was the original plan but that somehow has not been fructified.
- HR Gala** My second question pertains to our consumer and bazaar product; we have seen really good growth taking place in this year. Do you think, this kind of growth can be sustained because

on one hand we are apprehensive about the industrial products not doing that well because of the slowdown and all that but posting about 22% type of growth in consumer is really creditable for a company. So do you think we will be able to sustain that growth given that there may be some shortfall in the new construction activity and the furniture activity might come down and things like that?

Sandeep Batra

It certainly will be a function of how the overall economic situation in India plays out. So over the last 5 to 10 years we had a very good economic growth in India so if the economy in India grows in the same way that it has grown, certainly we would like to repeat our performance but then as I mentioned it is not in isolation. It all depends on which way the economy plays out.

HR Gala

But even with slightly subdued GDP growth rate, do you think that we can still maintain the double digit growth rate as we have seen?

Sandeep Batra

It will have some linkage to growth rate so it may not be 22% to 23%, there could be some slowdown in that but that we will have to see which way the Indian economy grows.

HR Gala

Sir, last question from my side, any inorganic initiative that we are contemplating at this point in time to strengthen our market position?

Sandeep Batra

Nothing which I can share on the call.

HR Gala

Okay sir, thank you very much and wish you all the best.

Moderator

Thank you. We have the next question from the line of Amit Hirmath from Enam AMC, please go ahead.

Amit Hirmath

Thanks for taking my question. Sir, firstly what would be the A&P expenses as a percentage of sales for us?

Sandeep Batra

For the full year it would be about under 4%.

Amit Hirmath

Is it because that in our consumer and bazaar segment the buying behavior is mostly influenced by the intermediary instead of the end consumer and that is why the brand recall is such high we that don't have to spend too much on the advertising itself?

Sandeep Batra

No, I think it's nothing to do with the role of the intermediary, I think overall whatever is required to stimulate demand or to drive demand that is something that we would look to spend. So it is not really worked out or determined by percentage in that sense, whatever is required for the company, for the brand is what would get done.



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- Amit Hirmath** Okay so what would be the segmentation between an advertising and promotion of the total A&P expenses?
- Sandeep Batra** I don't really have that number with me right now. If you can drop me an e-mail, I can probably find that out and share it with you but I don't have that information.
- Amit Hirmath** Thanks a lot.
- Moderator** Thank you. The next question is from the line of Gaurav Pant from SBI Mutual Fund, is go ahead.
- Gaurav Pant** Hi Sandeep. If you can just share the growth rates of the sub-segments in consumer end bazaar products, for adhesives and sealants and constructions and paint chemicals?
- Sandeep Batra** We don't really share the growth rates at that subcategory level.
- Gaurav Pant** But you give the breakup in the Annual Report?
- Sandeep Batra** That is overall share of that and from there certainly compute the growth numbers but I don't have those numbers with me because that is something that we publish only in the Annual Report.
- Gaurav Pant** But can you just give a sense?
- Sandeep Batra** The growth rate, certainly the packing order would remain the same, it would be construction chemicals which would have grown upwards of 30%, adhesives and sealants would have been 9 and then adhesives and sealants would have grown and then it would have been art and stationary range of products.
- Gaurav Pant** So adhesives and sealants would still be a high-teen growth for this year?
- Sandeep Batra** Yes.
- Gaurav Pant** And in industrial chemicals, any particular segments because I remember you mentioned about industrial adhesives being hit because of leather exports being hit?
- Sandeep Batra** All three segments in the industrial products have had that kind of a headwind.
- Gaurav Pant** Alright, thanks a lot sir.
- Moderator** Thank you. We have the next question from the line of Tejas Shah from Spark Capital, please go ahead.

Tejas Shah Sir, have we taken any price hike in 1st Quarter this year?

Sandeep Batra Some we may have taken, some are probably under implementation so it is a fairly a dynamic process given the number of products that we have.

Tejas Shah But have we taken it in adhesive and sealants or in other segments?

Sandeep Batra Taken meaning I think some price increases have got communicated, we may not have reached the dates from when the new prices will become effective but as I said it is a fairly involved and fairly detailed process. So certainly price increases in adhesives, in construction chemicals all are under consideration and will get implemented in a gradual manner.

Tejas Shah So far we have not billed it to customer yet in this year?

Sandeep Batra We may have. Some may have got billed some would be in the process of getting billed.

Tejas Shah Okay and looking at raw material scenario and especially Dollar-Rupee impact are you comfortable or you can give us some sense that whether would it be possible to protect margins without taking price hike this year?

Sandeep Batra No, it is not possible.

Tejas Shah And like last year would it be only one 1st Quarter price hike or after that also you will review it as you go forward?

Sandeep Batra Yes, absolutely. There is no fixed time when we take a price increase. As I said historically lot of our price increases happen in the 1st Quarter but that is not by plan, I mean, that is how it has been coincidentally. If margin pressures warrants we will look at price increases later.

Tejas Shah Sure and just last question, do you have any maintenance CAPEX associated with the elastomer project?

Sandeep Batra There would be some nominal amount of CAPEX just to make sure that the assets on ground remain protected but no major commitments in the project.

Tejas Shah Okay and your tax rate for FY13 would be slightly higher because your plans are coming out of tax-free zone?

Sandeep Batra One more plant in this year will complete its first five-year tax holiday period, so effective tax rate will be maybe just for conservative 100 to 200 basis points higher than current year.

Tejas Shah Okay, thanks a lot and all the best.

- Moderator** Thank you. The next question is from the line of Anirudh Joshi from Anand Rathi, please go ahead.
- Anirudh Joshi** Sir just wanted to check, what has been the new product pipeline we had or rather than the new product launches we have seen over FY12?
- Sandeep Batra** I think some of the products that we were looking at have met whatever internal target we would have had, for example Fevicol Marine has done well, Fevicol Speedx which is something that we introduced or rather we actively marketed in the last quarter, that has had good feedback from the market. Then few of the construction chemical products, I'm not sure whether you have seen the advertisement but we have been advertising behind raincoat which is an exterior wall waterproofing paint, so that is gaining good acceptance, so all in all I would say yes, I think we are meeting our internal expectations.
- Anirudh Joshi** Okay and in terms of new launches for FY13, you see a pretty strong pipeline?
- Sandeep Batra** See, none of our products will become mega sellers in one year. They are all small niches that they target. So that is as I said, vision is something which is like a normal DNA process in the company. So from that point of view several new products get identified, introduced, some in pilot, some in full scale mode, so that is a continuous process.
- Anirudh Joshi** Okay. And just on the synthetic elastomer have we done any further investment since the time we appointed the consultant, have we gone ahead any further work on that?
- Sandeep Batra** No, there has been no material commitment but yes, there are people who are been engaged for that project so their salaries get capitalized, there is borrowings that they have for the project, that interest gets capitalized and some amount of sustenance.
- Anirudh Joshi** Maintenance CAPEX?
- Sandeep Batra** You cannot call it maintenance CAPEX but some amount of CAPEX just to keep the project in readiness because expenditures yes, do get incurred but we have not made any commitments in terms of then building the plant.
- Nitin Gosar** Okay. Sir just further detail from it, how much in total land we have got at Dahej and if it gets sold out what are the total consideration we can fetch?
- Sandeep Batra** I do not really have that number with me of how much land we have, but I can certainly find that out, that piece of information I can send you. But what we will fetch if we were to sell it? I think it is a very hypothetical question situation and I do not think we as a company would like to find out all such things because they are hypothetical.



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Nitin Gosar Okay sir, last question from my side is, the other income has increased substantially this quarter. Is there any extraordinary income in this quarter?

Sandeep Batra No, there is no extraordinary income in this quarter.

Nitin Gosar Okay, thank you.

Moderator Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities, please go ahead.

Ranjit Cirumalla Hi sir, my questions have been answered. Thank you.

Sandeep Batra Okay.

Moderator Thank you. The last question is from the line of Amit Purohit from Dolat Capital, please go ahead.

Amit Purohit Good afternoon, congratulations, thank you for the opportunity. Sir two questions, one is you said our volume value mix was 50:50, that was for the quarter?

Sandeep Batra Quarter.

Amit Purohit For full year what would be the mix like?

Sandeep Batra Volume will be a slight higher than 50:50.

Amit Purohit So 60:40?

Sandeep Batra Yes of that order.

Amit Purohit Okay. And sir within the construction chemical, would it be largely dominated by waterproofing, I know you will not be able share the break up but I just want to know the order in terms of the mix?

Sandeep Batra Largely waterproofing.

Amit Purohit And this would largely retail focus?

Sandeep Batra Yes, largely retail.

Amit Purohit Thank you.



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Sandeep Batra

Alright, thank you very much.

Moderator

I would now like to hand the floor back to Mr. Radhakrishana for closing comments. Over to you sir.

Radhakrishana

We thank the management for this call and all the participants. Have a good day. Thank you sir.

Sandeep Batra

Thank you very much. Thank you everybody for your interest in Pidilite.

Moderator

Thanking all on behalf of IIFL Capital Limited, that concludes this conference call. Thank you for joining us, you may now disconnect your lines. Thank you.