



“Pidilite Industries Q1 FY15 Results Earnings
Conference Call”

July 31, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Q1 FY 2015 Earnings Conference Call, hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. J. Radhakrishnan from IIFL Capital Limited. Thank you and over to you Sir!

J. Radhakrishnan: Thank you Margaret. Good afternoon ladies and gentlemen. On behalf of IIFL Institutional Equities, I would like to welcome you all for first quarter FY2015 Earnings Conference call of Pidilite Industries. From the management we have with us Mr. Sandeep Batra - Director Finance of Pidilite Industries. I would now like to handover the floor to Mr. Batra for opening remarks after which we will move onto the Q&A session. Over to you Sir!

Sandeep Batra: Thank you, Mr. Radhakrishnan and good afternoon and a warm welcome to all the participants in the call. At the outset, I thank you for your interest in Pidilite. I will just give a brief overview of the results for the Q1 ended June 30. The results which were approved by the board at its meeting held yesterday.

I will first start with the consolidated performance. Net sales at 13,381 million grew by 19.6% over the same quarter last year, material cost as a percentage of net sales increased by 272-basis points mainly due to increase in cost of VAM key raw material for the company and this increase in cost was caused by global demand in supply mismatch.

Total expenses grew by 18.4%, EBITDA from operations before other income, finance cost and exceptional items grew by 5.1% mainly because of higher material cost. PBT grew by 2.1% and consolidated PAT grew by 3.8%.

I will now cover the performance of the standalone entity Pidilite Industries where net sales grew by 19.5% over the same period last year. This growth was driven by 20.8% sales increase of consumer and bazaar products whereas industrial products grew by 16.4%. Material cost as a percentage to sale increased by 291-basis points mainly due to higher cost for VAM as well as higher rupee dollar rate in this quarter versus same period last year.

EBITDA from operations before other income, finance cost and exceptional items grew by 4.4% largely because of higher material cost. During the quarter, we have adopted the useful life as suggested in part C of Schedule II of the New Company’s Act as a result of which the depreciation for the quarter is higher by 46.3 million.



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Under the transitional provisions of the requirements, the impact of written down value on assets where the useful life as become nil has been charged to the retained earnings and that amount net of deferred tax is Rs.134.3 million.

During the quarter, the company also incurred and exceptional cost on voluntary retirement of few of its workmen at one of the plants near Mumbai and the cost for that voluntary retirement was Rs.49 million. Investors may note that in the third quarter of last year, which is October, December, we had taken another provision for VRS of around Rs.70 million, for some more workmen who adopted for the scheme. So, this is part two of that voluntary retirement program at that unit.

In this quarter foreign exchange gain was only Rs.3.3 million versus Rs.76.8 million in the first quarter of last year and combination of higher depreciation, the exceptional outgo on account of voluntary retirement scheme as well as lower gain from foreign exchange difference as resulted in 1.1% growth in profit from operations. The profit before tax is same as last year.

I will now quickly turn to the performance of our overseas subsidiaries. We have 13 overseas subsidiaries for direct, nine stepdown with operations covering manufacturing in selling in US, Brazil, Thailand, Dubai, Egypt and Bangladesh. Consolidated sales of all these overseas subsidiaries grew by 19.3%, but because of favorable translation impact the reported number would so higher growth of around 22.6%. If we look at the performance of our operating units outside of India, the sales of Sargent Art, which is into art materials grew by 47.3% because of higher orders from retail exchange. Gross margin; however, as a percentage declined by 3% because of change in customer mix, sales of Cyclo which is into car care chemicals declined by 4.4% mainly due to lower exports, margins however in Cyclo are same as last year.

Consequently the EBITDA for the US business grew by 26%. The business in South America notably in Brazil, the sales their declined by 1.3% mainly because the markets there were partly closed for the bulk of June owing to the Football World Cup there. Gross margin as a percentage was same as last year and loss at EBITDA level was similar as Q1 last year largely because of lower sales as well as certain one of expenses taken for restructuring of the manufacturing operations there.

The subsidiaries in Middle East and Africa reported sales growth of 63% and the loss at EBITDA level declined by 81%. The business in Dubai has picked up and has grown by 227% whereas that in Egypt has grown by 10%. Both the businesses in South and South



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East Asia grew up by 33% and EBITDA grew by 32% specifically in Bangladesh sales grew by 34% and Thailand grew by 30%.

I also wanted to give an update about the two joint ventures that we had formed in India. We have joint venture type named Building Envelope Systems India Limited as well as joint venture named Percept Waterproofing Services Limited, both these started operations last year and the consolidated sales from these two subsidiaries was Rs.70 million and they were positive at profit after tax level; however, it is still very early days in these two Indian operations and sales certainly will likely to pickup as the businesses consolidate and integrate with Pidilite. So that is all I had by overview of opening remarks.

Now open to any questions that anybody may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on the India business. Sir, we have taken the price hike in Q4 and you had pointed that in Q2 will need one more hike, so if you can quantify how much is the hike and when we plan to take it and will that lead to gross margins coming back to the normal levels if you could answer that?

Sandeep Batra: We have taken price increase not in Q4, but in this quarter, so that price increase in the Fevicol range of products was taken towards the end of May, so the full benefit of that price increases not reflected in this quarter results and will do so in second quarter and yes that price increase is not what we have taken in the first quarter is not adequate that the increase in input cost and another price increase in this quarter may be towards the end of August is being planned.

Abneesh Roy: My question is we have such a strong market share. We know the gross margins are under pressure, so why we are delaying this and maybe doing this with the gap of three, four months, so first one came in May, second one was coming in end of August. So are you being very cautious on how consumer offtake is and what competition does and if you could elaborate what has competition done in May in terms of pricing?

Sandeep Batra: I think our price increases have got no relationship with what competition is doing given the kind of market position that we have most competitors would look to us in terms of what pricing action we are taking and then generally they follow suit with another lag. I think the reason why we have been cautious the time that we decided the price increase for May, there was no clarity on what the likely pricing of VAM will remain. So, we know that VAM



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prices from around \$950 kind of level, shot up drastically touched even levels of \$1650 kind of levels per tonnes and has since then come down, so the reason why we would have taken calibrated price increase is to get a better understanding of which level VAM prices will settle in and looking at that long term view of VAM, we would have decided what would have been in the quantum and timing of the net price increase. So, that is why the price increase that we took in May was certainly interim that is in line with the way we approach the category, the way we look at our market position. We do not want to do things in a tactical frame of mind. So, now having got clarity on which way VAM prices are going to settle at the next price will significantly off that the impact of cost increases.

Abneesh Roy: Two follow up on this. So, what is the current vamp price and what is the price hike you are planning in end of August?

Sandeep Batra: What we have taken was between 3% and 3.5% kind of price increase, similar magnitude price increase is planned for in this quarter. VAM prices are currently at around 1450 kind of levels. We cannot really predict with great degree of certainty of which they will play out, but our thinking is that VAM prices will probably settle at something around 1300 kind of level.

Abneesh Roy: My second question is on international business, if you see US it is very volatile, so Q4 if you see Cyclo did growth in sales while Sargent was down, this time it is opposite, why it is so volatile. Second is we have done B2B business in Sargent, so what let us to do this and is this opportunistic kind of an order or will get this kind of order every quarter?

Sandeep Batra: Let me answer the Sargent Art question firstly. We have two routes to market in Sargent Art. We do not sell through any stores student art material, they are all sold through mail order kind of companies and the physical distribution happens through retail chain and there are several such retail chain in the US through home we sell, so that is an established part of our business model. We have been working in terms of expanding our presence in other retail chains which do not stock our products. So, we had breakthrough in one of the large retail chains in US and this quarter reflects the first order that has come from this retail chain and that is a very, very significant part of the business of Sargent Art and having serviced that order that is why compared to same period last year. We have seen 47% growth in topline. As far as what happened in the case of Cyclo certainly large amount of the Cyclo business is exports from the US. So nearly 65%, 70% of Cyclo sales, we are exports to various markets in the world and we cannot really time the shipment such that every time we get we catch the correct timing of the shipment. So there are times when the shipment may switch from one period to the other depending on availability of vessels. So that also at times tends to cost this kind of variation in sales between quarter and quarter.



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Abneesh Roy: One follow up on this, Sargent you said one large retailer you have got, but should we take this as now sustainable runrate or sustainable shipment destination for us?

Sandeep Batra: So, the runrate increase will not happen, because these are extra volume of order which has come, volume of business which has come from this new retail chain and if it remains at the same level as we are, so you will see growth in this year, but then next year we would not again have similar kind of growth unless we are able to build the product range that we are selling to this retail chains, so there is something that is for the future. But for now, if you look at absolute quantum of sales, the Sargent Art business does have seasonality, you know the school season there is all in August-September, so the first half of the year for Sargent Art is always bigger than the second half. So, we will see the benefit of this new business from this new retail chain in this financial year.

Avnish Roy: Last question, Dubai extremely high number, so how sustainable is it because of low base and I missed again disappointed as you would not that to Football World Cup. So, I wanted to understand how much can Football World Cup impact, so what really happens. So are there stores close or is it holiday what happen?

Sandeep Batra: As far as Dubai is concerned, this is a small base. We have seen sales declining all of last year and this year, we have done some work not only in this quarter, but as a buildup to this quarter to look at new market in and around Dubai where we could grow our business, so we have been successful. We have got some big business from some neighboring geography as well as growth was in UAE, but please do review or take the growth numbers in the context of the base level of sales there. Having said that I think that subsidiary needs to reach a level of operation that it is not making cash losses, which was one milestone that we had for our sale. So there have been largely successful in this quarter. We certainly hope that they will maintain the performance of reaching a cash breakeven situation soon and then go onto generate some profit. As far as Brazil is concerned, it is not that the operations or the activity in that market slows down, but I think the kind of work that the tradesmen would do which would require use of our product that whole activity level comes down. So, football is a passion in that country, so lot of people who otherwise would have used our products may have reduced the level of activity because of the Football World Cup that was what happening. So, actually if you look at the performance month-by-month April and May we had reasonable growth, June was impacted, because the market there was shut, so people who stock our markets did not buy, because they did not have offtake.

Abneesh Roy: I will come back later. Thanks.



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Moderator: Thank you. The next question is from the line of Dimple Sheth from SKS Capital & Research. Please go ahead.

Dimple Sheth: Thank you for taking my question. My question is on my Vinyl that how much do you source from Vinyl which is your group company and Pidilite has 40% taken that. How much do you source from Vinyl chemicals?

Sandeep Batra: We buy all our requirement of Vinyl Acetate Monomer from Vinyl chemical.

Dimple Sheth: Do you get any cost benefit because it is a same promoter company?

Sandeep Batra: We do not get any cost benefit in that sense, but I think the price that we buy from them is at arms length.

Dimple Sheth: One more question, strategically if Vinyl is merged with Pidilite, then it would be backward integrated thing because it is again the group company. So, why it is listed with separate entity with just a small market cap?

Sandeep Batra: Vinyl Chemical if you recall was a company which was into manufacture and distribution of Vinyl Acetate Monomer and we took a decision to demerge the manufacturing assets of Vinyl Chemical and merge it with Pidilite. The manufacturing asset is with Pidilite and the distribution and import and trading of VAM has done by Vinyl Chemical.

Dimple Sheth: Yes Sir, but when I am just not do any manufacturing, it just imports and it just sells to Pidilite right?

Sandeep Batra: Pidilite and other customers in India.

Dimple Sheth: But 80% of it is to Pidilite only as far as I understood from them 80% is added to Pidilite only.

Sandeep Batra: The dominant customer of Vinyl Chemical is Pidilite.

Dimple Sheth: They do not manufacture, because manufacturing becomes a little expensive compared to imports?

Sandeep Batra: They do not have any assets to manufacture.

Dimple Sheth: So, they just import and they sell it to you. I wanted to understand what is the strategy behind that if it just does it can be a part of Pidilite and you can get backward integration?



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- Sandeep Batra:** It is a separate legal entity. It has expertise in trading and chemicals. It has relationship with global vendors of Vinyl Acetate Monomer. So I am not really able to understand your question.
- Dimple Sheth:** It used to be a very small microcap company as listed in legal entity if we merge it with Pidilite because 80% of the sales come from Pidilite only. So, if it is merged with Pidilite, then Pidilite get a backward integration and it will be better on the cost front.
- Sandeep Batra:** There will be no backward integration for Pidilite, because the backward integration in terms of having the asset to make Vinyl Acetate Monomer is already with Pidilite and as you rightly said it is company which Pidilite has significant year holding, so therefore it is an associate company. We will see consolidated results, they get idea there as income from associate.
- Dimple Sheth:** In case in future if you plan to manufacture VAM, it will be through Vinyl chemical or it will be separately done by Pidilite?
- Sandeep Batra:** The asset to make Vinyl Acetate Monomer was demerged and merged with Pidilite, so Pidilite as that I said it is not cost effective to make Vinyl Acetate in that facility, because of input cost and cost of import, therefore we have opted to import VAM through Vinyl.
- Dimple Sheth:** That was the question regarding Vinyl only. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my question. I have two questions. Firstly, just a bit of follow up on the VAM. So the price increases that you have planned for August. So total we will have about 6%, 7% price increase in the next three, four months. Will that be sufficient to have said the VAM prices at current levels or is there target level that you have that, is there VAM prices stabilize at 1300, this is the price increase that we need to take?
- Sandeep Batra:** The VAM prices are at around 1300 kind of levels and we do not see any expansion other commodities and if currency remains stable then the kind of price increase that we have planned in end of August will be adequate, but then there are so many ifs and buts we do not know the price at which VAM will stabilize. We do not know currency. We do not know inflation in other commodities. So it is a bit of tricky question to give a very definitive answer to.



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Gunjan Prithyani: In terms of your increases it should offset if VAM prices settle at 1300 it is sufficient to offset any cost pressure, but if VAM price continue to stay at let us 1400 or 1450 levels what you are indicating right now. You would need to take more price increase is it?

Sandeep Batra: That is correct.

Gunjan Prithyani: Okay and that would again be a very similar quantum to 3%?

Sandeep Batra: That will again depend what the inflation outlook at that time is, but it will be in that range.

Gunjan Prithyani: So 1400, 1450 is the level currently and you guys are expecting that they should settle at around 1300 levels towards the second half of this year?

Sandeep Batra: We are not expecting, we are saying that if it settled that level then we may not require further prices increases. If it stays higher then we may have to consider appropriate pricing action.

Gunjan Prithyani: In terms of your outlook on the softening of VAM prices, is there essentially on the back of them some facilities becoming operational in Europe or US or is it something else?

Sandeep Batra: Yes, we are looking at maybe one or two more facilities not in Europe, US, but in South East Asia becoming available. If those facilities come on stream, then that could have softening effect on VAM prices that is something for the future.

Gunjan Prithyani: Those facilities are expected to come on stream by when?

Sandeep Batra: In the next three to six months.

Gunjan Prithyani: Secondly my question is on growth. You have seen good improvement in the growth trends over the last two quarters. Is there something we really need to read into this in terms of improvement on the ground in terms of our additives, which was growing lower than the company level growth? If you could give us some sense on which segment have been driving the growth in the last two quarters?

Sandeep Batra: What has happened is that all the various businesses that we have last year each of the quarter, one of the segments, would have performed below the company average. What happened in this quarter, is that all the segments have performed much better than what they have done last year and they have kind of grown in line with the consolidated growth in consumer and bazaar.



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- Gunjan Prithyani:** In terms of demand improvement, is there any visible improvement we have seen in last couple of months that we should that FY2015 growth number would be better than FY2014?
- Sandeep Batra:** I do not think underlying demand we have seen any drastic shift. It is largely improved execution at our end, which is reflected in the stronger growth numbers. Also keep in mind that you are Q1 last year, first below the full year growth rate. So, our Q1 last year was only 11% whereas full year was 16.5%.
- Gunjan Prithyani:** Last question on this VRS is there anything more which still needs which can came up later during the year?
- Sandeep Batra:** Nothing that is under active difference as I said.
- Gunjan Prithyani:** Restructuring which you mentioned in Brazil was there one of in this quarter as well right and it was there in last quarter also?
- Sandeep Batra:** This was not a very large amount of provision for restructuring. We are looking at restructuring or manufacturing operations there. As a result of which there would have been some payouts to employees as a result of that restructuring, but it is not a very significant or material amount in the overall context.
- Gunjan Prithyani:** We do not expect any significant provisions that may be required towards in the second half or through the year?
- Sandeep Batra:** Not very significant.
- Moderator:** Thank you. The next question is from the line of Aniruddha Joshi from Anand Rathi Securities. Please go ahead.
- Aniruddha Joshi:** Can you just indicate the carry over impact of price hikes from earlier quarter in the June quarter?
- Sandeep Batra:** It would be very difficult to answer.
- Aniruddha Joshi:** Can you just indicate what was the volume growth per se in this quarter, because we have taken only 3% price hike almost at the end of the quarter. So what was the volume growth in June quarter?



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- Sandeep Batra:** Volume growth in this quarter was about 13% and remaining was price and mix.
- Aniruddha Joshi:** In terms of was there any impact of delayed monsoon on the revenues of construction chemical segment Dr. Fixit?
- Sandeep Batra:** No I cannot.
- Aniruddha Joshi:** Is there any spillover in probably Q2 due to delayed monsoon?
- Sandeep Batra:** No, I really cannot comment on effect of monsoon on construction chemicals.
- Aniruddha Joshi:** Lastly just a followup question. What is the tax rate that you are looking at for FY2015?
- Sandeep Batra:** This year will be same as the average rate for last year.
- Aniruddha Joshi:** So around 26%.
- Sandeep Batra:** Same whatever the percentage comes through.
- Aniruddha Joshi:** Last question from my side again, what is the total investment in the entire Synthetic Elastomer Project at the end of June quarter and any plan if you can share?
- Sandeep Batra:** Total investment is same. We kept work on this project on hold. The total investment is about Rs.370 Crores as on June 30, and in terms of we will forward on that, we do not really have any update to share at this moment. Work is underway in terms of identifying or strategic partner, but nothing which I can share with you at this stage.
- Aniruddha Joshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hiral Desai from I-Alpha Enterprises. Please go ahead.
- Hiral Desai:** Thanks for taking my question. I just wanted to check on the industrial segment margins. If I look at FY2014 despite a 15% growth the margins were barely at around 10%, this quarter it is slipped to 7.5 is it just wandering where will this normalize?
- Sandeep Batra:** I think yes this quarter margins are amongst the lowest in this segment. Main reason of course is that the impact of all the input cost increases and industrial products to use fair amount of VAM. The price increases in industrial products takes even more longer time



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that it has in consumer and bazaar, because you cannot increase prices laterally. So I think there the correction of margins may take it little bit longer.

Hiral Desai: Is there difference between the export versus the domestic margin on the industrial side or they would more or less be similar?

Sandeep Batra: They would be more or less in the same range.

Hiral Desai: I just wanted to check on the other income side given the changes in the FMP and liquid fund regulations I think FY2013 we had about Rs.284 Crores which were in FMP or liquid funds. Now given that the tax rules have changed. How are we sort of evaluating the other options, it will be continued to invest in longer term FMPs. So what will be the impact on the yield per se?

Sandeep Batra: We will have to look at the investment in FMP as a category. Not at all has attractive as whatever unless you invest for more than three years. So, at the moment, I do not think the industry itself has come up with a new range of products which are as tax efficient as what the earlier FMPs were. We are also doing, wait and watch, see how it plays out. Certainly if we have cash for a long period of time, we will look at instruments which give the best returns over a three year kind a horizon. So, we are at the moment to answer your question reviewing what should be our investment approach for all surplus funds.

Hiral Desai: Lastly on the Elastomer project when you are saying the discussions with interested party, this is more to sell the business or run it as a JV. What is the thought process of the board?

Sandeep Batra: The thought process of the board is to have strategic partner on board then in discussion and consultation with the strategic partner, we will decide what the next course of action will be. So from our side, we do not have stated policy that it will only have to be joint venture or it will have to be 100% divestment. We do not have any such reservations as such. We have opened to whatever structure the strategic partner would be comfortable with in terms of taking the project forward.

Hiral Desai: Anything has meaningfully changed in terms of the end market, because I think couple of year's back the scenario was in looking that great for the synthetic rubber project. So anything that is changed there?

Sandeep Batra: No, I do not think the project, if it has any concerns or there are any concerns on the viability of the project. It remains viable it is certainly more acceptable to commodity cycle fluctuation then may be consumer and bazaar segment. But inherent profitability remains



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attractive. It is just that it is such specialized product and may be the appetite for transaction is not very high and that is why it is taking longer to find the partner.

Hiral Desai: Thanks and all the best. I will come back if I have other questions.

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

Tejas Shah: Thanks for the opportunity. Sorry to repeat this question, but what puzzles us is that many other categories like-to-like be it paints and even in FMCG we are seeing that market leader has a strong market share and in your case it is much, much stronger than what we observe in decorative paints in particular. Any slightest pressure on gross margin they are able to take price at sometimes even premium to price actually we have seen in the recent past. What are the two factors of one factor which actually stops from taking price hike and we have seen considerable erosion in gross margin in the last two quarters. So, is it market share or is it unorganized segment and gaining market. Because there is no other brand I believe unorganized which can actually pressurize margins.

Sandeep Batra: I think the philosophy of the company all along and it is not only in the last few years, but since the beginning the philosophy of the company has been never to do anything in a knee jerk manner, get clarity on what the longer term outlook or expectation on the cost regime has been and once you have taken, got firm outlook or firm handle on what the input cost scenario is looking like then you go and calibrate your pricing to pass it on. So, historically we have been able to pass on most of our cost increases albeit it with a lag. Now our approach has never been to do tactical price adjustment because then the signal that you end up giving to the trade is that we are flexible in terms of adjusting our prices up and down as in when the commodity cycle moves whichever where it moves. Our philosophy has been that somebody who has leading market positions adapts a slightly more responsible approach, get clarity on which way the cost regime is and then take pricing action which is commensurate. So, I agree with what you observe that there are lots of companies who do much more tactical pricing, but how has never been our philosophy.

Tejas Shah: From your experience, if you can share any example in recent past or in distant past what is the downside of taking premium term price hikes?

Sandeep Batra: The only downside is that then you are not behaving as I would say in a responsible manner of course, the trade expectation then would be that when these commodity cost come down, then you also reduce your price. To give an example if you had taken price increases when VAM had touched 1700, then when VAM becomes 1400 then you are expected to reduce



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your prices, that is not something that kind of unstable pricing, it is not good for the product, it is good for the customer, it is not good for the trade is what our belief is and therefore we have never followed approach like that.

Tejas Shah: Fair enough and if you can throw some light on two JVs. What is the scope of business we are targeting there?

Sandeep Batra: The first JV which is Building Envelope Systems is to make very high and water proofing products, the likes of which are not made in India, current demand is serviced through export. We have tied up with two technocrats from who have businesses in UAE. So they have gotten the technology, we have the distribution. So that business has picked up, it started late last year calendar year and as the products gain acceptance with customers that business will ramp up. That is a technology that we did not have within Pidilite and therefore we took one form a joint venture. The other business that we have is into water proofing application services. So one challenge that we find is that our products may be very high-tech, but if you are not able to apply properly, you are not able to give the benefit of the product proposition to the customer. So, we have decided to explore, the application services business as a possible area where we could grow and that is how the joint venture called percept water proofing services was formed and that again today there is no organized water proofing application service provider. If you have service which impact by a name like Pidilite that certainly helps gain market acceptance of this new methods of providing water proofing.

Tejas Shah: We had Dr. Fixit to handle application side of challenges?

Sandeep Batra: Dr. Fixit is only the product brand.

Tejas Shah: No, I am saying Dr. Fixit Institute.

Sandeep Batra: That is only for training, that it does not do any application that is not for profit institute which largely promotes the better techniques or water proofing or does not do any business.

Tejas Shah: We are going to recruit people on books and do the applications.

Sandeep Batra: It is for an existing company run by entrepreneur. We took the business of the company put it into our company where we have 80% stake and erstwhile owner of that business remains on board with 20% stake that is how the business is getting taken forward.

Tejas Shah: On the first JV would it be B2B or B2C?



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- Sandeep Batra:** That company sales all its products to Pidilite that is only manufacturing.
- Tejas Shah:** So brand remains Dr. Fixit on that.
- Sandeep Batra:** Yes.
- Tejas Shah:** Thanks a tonne and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.
- Nimit Shah:** Good evening Sir. You mentioned in your remarks that VAM prices had touched 1700, 1750, when was that and what are the current prices?
- Sandeep Batra:** In April-May prices at shot up as high as 1700 because of this uncertainty about supplies and they have since then come down to levels around 1450.
- Nimit Shah:** So, currently in July that this month at around 1450 or like that?
- Sandeep Batra:** Not July, what you buy today is at 1450 which we will get delivery of may be 30, 60 days later.
- Nimit Shah:** What inventory do we carry for VAM or contracts are placed?
- Sandeep Batra:** Our contracts are generally for pricing on a quarterly basis, if there are these kinds of sudden spikes and those contracts also do not really hold much, because the vendor will go and declare post measure of anything. General inventory that we have will be between two to three weeks.
- Nimit Shah:** So that means 1700, 1750 price which was ruling at April-May, so we might also have some impact of that of high prices.
- Sandeep Batra:** We would have one consignment or some parcel at that price, so you have been looked at the blended price, but current prices is in that range 1450.
- Nimit Shah:** Because in Bloomberg this April, May, June prices continues to be at around 1800, 1850.
- Sandeep Batra:** It all depends there some of them are as I said we have a large offtake, so we certainly get some quantity discount.



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- Nimit Shah:** So sequentially that is current ruling prices have dropped significantly that means by \$200, \$300?
- Sandeep Batra:** I have \$200, \$250.
- Nimit Shah:** In any reason for that means any supply has started?
- Sandeep Batra:** Some of the increases may have been regulative. So, I am not sure what was the reason why it reached specifically if I had reached 1650, 1700 on that, but I would that some of the reasons would have been purely speculated.
- Nimit Shah:** If you can help us with that sales and EBITDA of the subsidiaries in terms of absolute number what has been that?
- Sandeep Batra:** In the ER investor communication, I will put out the country-by-country sales in EBITDA.
- Nimit Shah:** Correct, but on absolute level, what will be the EBITDA?
- Sandeep Batra:** Absolute level for our overseas, subsidiaries the sales was Rs.1380 million and EBITDA was 83 million.
- Nimit Shah:** It was a positive EBITDA.
- Sandeep Batra:** It is similar. Last year was 1156 sales and 50 million EBITDA.
- Nimit Shah:** Year-on-year it has been a positive. In Q4 we had negative EBITDA.
- Sandeep Batra:** Because there were some exceptional.
- Nimit Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Just two follow up questions. One is, at this time monsoon has been very late and definitely a big deficit at least now. In that context in your waterproofing business are you seeing lesser demand at least in the last one-and-a-half months?
- Sandeep Batra:** Nothing noticeable.



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Abneesh Roy: Paint companies have also entered this and in the past we have discussed in detail, but now with further passage of time are you saying any kind of impact now at least in the smaller consumer, so it is not full society waterproofing, it is more at the retail consumer and are you seeing market share shift?

Sandeep Batra: Nothing, very dramatic, nothing significant.

Abneesh Roy: Brazil, we have discussed earlier, but Brazil always remains an issue in most quarters. So if you could update of us on the strategy, what is the long term plan there in terms of profitability and even sales growth entering more towards the mean of the international sales growth?

Sandeep Batra: We have to look at two parts. One of course is that the economy in the Brazil has certainly underperformed. It has not been growing as that it was expected to grow. So in an economy where growth is muted some 5% kind of level with high inflation, we are not the market leaders. So, it is a very challenging situation there. We have taken a series of action in terms of reducing cost, so significantly outsourcing our manufacturing operations there with a view to reduce cost, so therefore you are able to be more profitable at lower levels of sales. At the same time look at initiatives to grow the topline that remains the strategy for that country, we have had reasonable improvement in performance all of last year; however, yes, as you rightly, the first quarter has been a big challenge may be largely because of the disruption in the market because of the Football World Cup. July month also would have seen some disruption, because the World Cup Football spilled over into July. But I think once the business returns to normalcy we should certainly see better performance there.

Abneesh Roy: My next question, if you see the leader in paints, they are foraying into new geographies specifically more into Africa to whether existing operation in Middle East and North Africa, so what is our plan in terms of African has an opportunity in terms of new growth driver, what are we doing that?

Sandeep Batra: We are also looking at more countries in Africa, where we could look at, so those countries were demographics are similar to India where the growth expectations are in line with what we have seen in India, so, we are also evaluating. It is a bit premature to give any more specific details on that, but we are also very keen on growing our business in Africa.

Abneesh Roy: Coming back to India, we have been doing these small pilot sales of some of the Cyclo product; I saw one in one of the events in Bombay. So, if you could update us, are these products ready in the top 10 cities, is the demand there for these are at still, it will take five, seven years for this tropical?



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- Sandeep Batra:** The growth of the range of products that Cyclo sells India has adopted these products at the kind of speed that we would have liked it. We however, do have range of automotive aftermarket products in India under our own brand called Motomax that continues to do well in the sense given the small base that exists of that product line, but yes, one on one kind of adoption of the kind of products that are sold by Cyclo is still sometime away. We do not see it getting adopted very easily into India.
- Abneesh Roy:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.
- Jiten Doshi:** My question is very clear then I would like to know, when is the Elastomer Plant that you have set up what is the final conclusion that you are all going to be looking at either sale or JV starting the plant? You can give us a direction for that?
- Sandeep Batra:** I think the direction is very clear that we will proceed with the plant only after we have strategic partner on board. We will not go ahead with the plant on our own. The search for the partner is underway, but at the moment we have nothing to share in terms of specifics.
- Jiten Doshi:** Are you investing any further amounts of there?
- Sandeep Batra:** No.
- Jiten Doshi:** So, the plant is basically (indiscernible) 50.47. Regarding your overseas subsidiaries, are you looking at any fresh infusion of capital or any fresh capitalization or investments in the overseas subsidiaries in the current year?
- Sandeep Batra:** Nothing very material. We are not looking at any, lot of our subsidiary require significant amount of capital for any capacity expansion. We have enough capacity and yes some amount of investment for debottlenecking existing capacity maybe required, but that is count going to be very material. But what we may look up at and look to and something which I responded to a question short while back is that if you decide to get into newer geographies, then yes there could be some amount of capital infusion required for these new geography.
- Jiten Doshi:** My last question would be now you are swimming in cash. On a net cash basis, you will have more than 400, 500 Crores of cash. So, what are your plans with that cash? Generally you have always utilized it well on acquisitions except for the large one has not paid off in



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the Elastomer side, but are you ready to pay it out or acquire or what is the minimum cash you want to hold in that giving you comfort?

Sandeep Batra: No business would like to only be satisfied with 7%, 8%, 9% and returns on the cash that we have one on our balance sheet. That cash is best deployed with the business, so we will look at and we have always looked at alternate options and opportunities as far as cash is concerned. Largely being putting it back into the business, so that remains with the main objective of deployment of the cash.

Jiten Doshi: If you see the cash that you will generate is far in excess of your requirements now onwards, so would that mean you will alter your payout ratio and go to the next trajectory of payouts?

Sandeep Batra: I think it would depend, if we do not have any options or opportunities for deploying it in the business either organic or inorganic certainly the board will consider increasing payout as an alternative, but that is a board prerogative so, I really would not able to.

Jiten Doshi: But you agree with me that the cash that you are right now generating is far in excess of your requirements?

Sandeep Batra: Exactly, but it is in excess of the requirement as you define is organically, but options of deployment of cash or not only limited to those kind of opportunities.

Jiten Doshi: We wish you all the very best and I hope that you are able to find the right acquisition candidates and grow the business. Thank you.

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

Tejas Shah: Couple of follow up. Can you just help us to understand growth scenario and pricing power in industrial segment?

Sandeep Batra: Pricing power is not the same nature as we have in our branded and consumer business.

Tejas Shah: I am saying versus last three, four or five quarters as it improved?

Sandeep Batra: There has been no change in the industry dynamics, so it is not that certainly we have more or less pricing power. I think what has happened in this quarter, the input costs have



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increased largely led by VAM and because of that in the industrial product scenario, the lag between cost and price increases longer. So that is the main reason.

Tejas Shah: Second question is, all this VRS, is it pertaining to any plant or any factory in particular?

Sandeep Batra: We have one of the factories in near Bombay where we wanted to restructure the work force. So this is largely relates to that.

Tejas Shah: Are we planning to shut those plants like many paint companies have done in the recent past?

Sandeep Batra: We do not have very, very large plants. Our plant sizes are not very large, but this was one particular plant where we wanted to restructure the work force and therefore we offered severance (ph) to the workmen there.

Tejas Shah: Coming back to growth scenario in industrial are you seeing any uptake, because there is global economy seems to be recovering somewhat, so are you seeing any uptake over that?

Sandeep Batra: Nothing susceptible.

Tejas Shah: Thank you Sir and all the best.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. J. Radhakrishnan for closing comments.

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

Sandeep Batra: Thank you, Mr. Radhakrishnan. No further comments. Just wish all the participants on the call, very good day and thank you for their continued interest in Pidilite and thank you to you to organizing this call for us.

J. Radhakrishnan: Thank you Sir.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.