



16th November, 2023

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Stock Code – 500331

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

Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 9th November, 2023.

A recording of the transcript is available on the website of the Company viz. www.pidilite.com.

Kindly take the same on records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

Manisha Shetty
Company Secretary

Encl: as above

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**“Pidilite Industries Limited Q2 FY24 Earnings
Conference Call”**

November 09, 2023

**MANAGEMENT: MR. BHARAT PURI – MANAGING DIRECTOR
MR. SUDHANSHU VATS – DEPUTY MANAGING
DIRECTOR
MR. SANDEEP BATRA – EXECUTIVE DIRECTOR
(FINANCE) & CFO
MR. SUNIL BURDE – SENIOR VICE PRESIDENT
(FINANCE & ACCOUNTS)**

**ANALYST: MR. AMNISH AGGARWAL – PRABHUDAS LILLADHER
PRIVATE LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to Pidilite Industries Ltd. Earnings Conference Call hosted by Prabhudas Lilladher Private 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, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amnish Aggarwal from Prabhudas Lilladher. Thank you and over to you, Sir.

Amnish Aggarwal: Hi, everyone. So, on behalf of Prabhudas Lilladher, I welcome you all to the Conference Call of Pidilite Industries Ltd. Today, we are joined by Mr. Bharat Puri, Managing Director of the company. Mr. Sudhanshu Vats, Deputy Managing Director, Mr. Sandeep Batra, Executive Director (Finance) and CFO; and Mr. Sunil Burde – Senior Vice President (Finance & Accounts). So, without spending further time, I will hand over the line to the management to take us through the proceedings.

Sandeep Batra: Thank you, Amish and good afternoon to all on the call. I take great pleasure in sharing with you a brief commentary on the results for the second quarter, which were approved by the Board at its meeting yesterday. Our standalone revenue growth for the quarter was driven by robust underlying volume growth of 8.2%. This growth was broad-based with the domestic consumer and bazaar segment delivering underlying volume growth of 8% and a four-year CAGR of 14% and the domestic B2B business growing by UVG of 20%, which translates into a four-year CAGR of 11%. The growth in rural markets continue to be higher than urban markets. Input prices continue to moderate and suitable price adjustments were done. Standalone gross margin percentage in this quarter expanded both sequentially as well as year-on-year. For the quarter, it grew by 230 basis points over the first quarter of this year and by 1,095 basis points over same period last year. VAM consumption in the quarter was around \$1,000 a ton as compared to \$2,500 in the previous year. A significant amount of this is translated into the margin expansion. We continue to remain aggressive in investing behind our brands with spend on A&SP being 2X of the same period last year.

Despite passing on some of the benefit of these lower input costs to customers as well as increased A&SP spends, standalone EBITDA margins have improved by 600 basis points over same period last year and by 50 basis points over the first quarter and stands at 23.2%. Our domestic subsidiaries continue to deliver robust sales growth, driven by the C&B businesses and EBITDA margins improved sequentially as well as year-on-year.



Our international subsidiaries excluding Pidilite USA, the business which is in the process of being wound down reported modest sales growth despite uncertain global economic conditions, inflation as well as currency devaluation challenges in these countries. EBITDA registered robust growth and EBITDA margins improved both sequentially and year-on-year and are now kind of in the double digits. The working capital situation continued to remain healthy, resulting in conversion of most of the profits into cash. As an organization, we remain focused on building a resilient supply chain and investing behind upgradation and setting up of new manufacturing units. In the last quarter, we commissioned four new plants, which together with four that were commissioned in the prior quarter, takes us to 8 new plants in this financial year.

We continue to increase our distribution touch points across India in both urban and rural geographies along with effective use of digital tools. Very recently, in October, we have commissioned a regional distribution center in Hyderabad for strengthening our supply chain ecosystem. We continue to remain optimistic in the near term with tailwinds coming from the extended festive season, increase in construction activity as well as the governments focus on CapEx. Though input prices are currently stable, we remain watchful of the current geopolitical situation and its impact on input prices as well as global demand. So, these were my opening comments. I am very happy to deep dive into questions that the audience would have.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: I have two questions. First is on the domestic consumer bazaar volume growth of 8% YoY and 14% four-year CAGR. Now a lot of your demand comes from discretionary segments like furniture, apparel, footwear etc., which is currently seeing a slowdown. So, if you could tell us the good volume growth you have reported, where this is coming from and you have also diversified your business significantly over the last four years. So, when you see that 14% CAGR, if you could give us over a four-year, how has the mix changed over four-year, whatever details you can give?

Bharat Puri: Always good to hear from you Abneesh. Good to see you back. To answer your questions, see as far as the first, let's stay with this quarter and then will go to the four-year picture. As far as this quarter is concerned, really, when you are talking of things like footwear, textiles, etc. we are finding a clear trend that wherever people's demand is based on overseas demand that still remains challenged. Domestic



industry and domestic demand are quite solid. A large part of this demand comes under our B2B section. So, as far as B2C is concerned, actually our growth is pretty secular across the divisions, and therefore across categories and geographies. For us, rural and semi-urban is growing faster than urban and you are pretty much a Pidilite expert. You know that over the last three to four years we have invested substantially behind rural and semi-urban and that is giving us a lot of dividends as we go forward, I mean then I can talk about the initiatives in detail if you want me to.

On a four-year picture, if you look at the product mix, you remember we talked about core, growth and Pioneer. About five years back, core to growth in Pioneer was 75:25. This has slowly and steadily now pretty much become 65:35 and the way we are going, it will soon become by the end of the year, probably be 60:40. So, a lot of the growth categories are really delivering. If I was to give you an example of Araldite. Araldite has grown at a consistent rate of over 20% by volume ever since its acquisition. Now, clearly for us therefore that has become a substantial category. If you look at tile adhesives, we started from behind the starting line about 5-6 years back. We now have 10 plants. That itself tells you where the business has gone. So, therefore, our growth businesses and pioneer businesses continue to deliver. The good thing, however, in this is, our core businesses are still growing ahead of GDP. So, it is not that you have got these new businesses leading the growth and even if you look at this year or you look at the four-year period, our flagship Fevicol is still double-digit growth.

Abneesh Roy:

Thanks, Bharat, that is useful. My second and last question is on the lending business. So, 2-3 key questions there. One is, why acquire a promoter Group company and why was this zero-debt company and why promoter started this and nothing much happened it seems and why have you acquired? Why not do it from scratch? That was first question. Second is 50 crores per year, 100 crore two-year seems too small. So, is this a pilot project and if it is successful, it could be much bigger? You are such a large company with 3,000-core EBITDA. So, 100 crore two-years seems too small to have a big business impact. So, if you could tell us, is this pilot or is this the final amount? And third is that no consumer company seems to be doing this. You are known to be out-of-the-box, but why not do third party? What is the big benefit by doing it in-house? I understand data access, and premiumization, a lot of that could have been done by third party also. So, if you could cover all these points.

Bharat Puri:

Abneesh, we have been asked these questions a fair amount. See first and foremost, I will answer the smaller part of the question just for simple ease of doing business

since we had this old NBFC already in the promoter group, we felt the easiest way to without losing any time move this forward was to do this. This has now been inactive for a long period of time. You are absolutely right. Pidilite's basic strategy always is to pilot, understand, learn, recalibrate and move on. This is exactly going to be the strategy for this NBFC. Now, based on the response we get via the pilot, it will be piloted actually only in one geography. It will not be piloted across the country or any such thing. Once we got our learnings from the pilot, all options are on the table. We intend following an asset light model. So, we will be go partnering with a lot of other fellows as far as assets are concerned.

Why we want to do this ourselves very simply is, A - we believe one of our strongest assets is the information base. This whole Pidilite ecosystem be it a Carpenter, be it a Mason, be it a tile layer, be it a plumbing contractor, and of course the whole list of dealers across six or seven different routes to market, from things as diverse as stationary to sanitary to pipes to obviously plywood, hardware, paint, and various other sectors. We are the only people who have a history of each of these parties. We know their credit history, we know their buying capacity, we know exactly in a sense, what they are capable of doing and therefore we wanted to keep this in-house. This does not mean that in the future we can't have partnerships, but as of now, as a start, as a pilot, we would rather do it ourselves, but remember, just to make sure that management does not get distracted, management bandwidth does not get distracted, this is a separate team, completely different from the Pidilite team and once we announce the team, you will see it is a very heavyweight team.

Abneesh Roy: One follow-up and that is the last question. So, essentially you have said that this has been a long-standing requirement and demand of the industry, so any other part of the world, any consumer company not necessarily in your categories, does it do it and second is where do they get currently credits from and how important is credit for the ecosystem in terms of doing this, because they also get credit, right, contractors also do get credit?

Bharat Puri: Normally, contractors will get credit from the people they buy from. These could be dealers, etc. The dealers get credit from companies like us. We also give credit, but what tends to happen Abneesh is specially with the contractor, you have these all credits which by definition is lumpy. So, suddenly you have a requirement for a short period of time etc. and that impacts their business. In fact, just anecdotally, I was with a set of contractors in Gurgaon last week and what they were saying is now when they have a sudden rush, because of real estate going up etc., they are struggling

because the labor wants money every evening, but their builders are paying them only in like three and six months. Now, they know the money is going nowhere and therefore, like infinity I must tell you, very welcoming of this is that can we start tomorrow? So, really the issue is and remember we are not looking at big ticket items, we are not looking at large capital spends etc. These are all small tickets spends for an ecosystem that we are fully in control and know a lot about.

Abneesh Roy: Thanks, Sir. That is all from my side. Thank you.

Moderator: The next question is from the line of Arnav Mitra from Goldman Sachs. Please go ahead, Sir.

Arnav Mitra: Again, my first question was on the lending business itself. So, I think there are two concerns essentially, I wanted you to address. One is that this is an area where you don't have expertise, which is lending and it is one of those businesses which can be very cyclical, you can have good years and you can have very bad years. So, how does one get comfort around your ability to do this business in the first place? Second, of course is what the previous person asked is that is it that you think lending itself in this segment is a good business or there is some rub off effect you expect on your overall business if this becomes successful? And the third is that again lending is a business where it can take a lot of capital in the long run. So, do you have some number in mind that you know our investment even in the medium term won't cross a certain value or certain percentage of your capital employed?

Bharat Puri: Great question, Arnav. Always good to hear from you. See again, to go in the reverse order, first let's take off the NBFC questions. As far as the team is concerned, you will see that the team that we put in place for running this NBFC, you will see is an extremely experienced and and blue chip team, just wait until you hear the details and you will be clear. It is obviously clear that we do not have the expertise and we are not going to second Pidilite executives to run this. This is a completely new team and I would submit a very competent team. The rest, from a capital and our exposure as I said post the pilot, we will decide what is the best way forward for this. We are clear that this is not a core business for us and there will definitely be some amount of rub off because obviously this ecosystem already knows us. If we are able to make their life easier and help them expand their businesses then there is a rub off not only via the connect, via loyalty, but also via the kind of products the premiumization. I mean the link is with the company, but really from the opportunity point of view, we want to test our assumptions via the pilot. There we will be clear, this is again an area where once we are clear, this is the scope, this is where we want to go. Maybe at this



time next year, we will come back to you with a firmer plan of where this has to go, but we do not see ourselves employing a large amount of capital of this. We are going to limit the amount of capital that Pidilite could share and take it forward from there.

Arnab Mitra:

Thanks for that clarification, Bharat. My second question was on the growth in the pioneering businesses. So, one of the key initiatives has been the expansion of PKD tools where I think you are now at around 10,000 from what you mentioned last time. Now, my question was you know in these villages there are some 10,000, is there any demand for outside core products or this initiative on distribution into rural is more about Fevicol, the wood working adhesive business itself or is there actually demand even for let's say waterproofing, tile adhesive, paint adhesives in these small areas where one would ideally expect those to be in very, very insensitive in these kinds of categories.

Bharat Puri:

See, A) now I must tell you, we are rapidly expanding the Pidilite Ki DuniNetwork. We are now actually at 12,000 and we are pretty much adding between 1,000 to 1,500 every quarter. As far as demand is concerned, a lot of times we may start with the core products, but actually one of the reasons Arnab, why for us rural and semi-urban continues to drive growth at a much higher rate than urban is actually the innovation as well as the new products getting used here. So, whether it is waterproofing, base waterproofing, whether it is something like Araldite, surprisingly tile adhesives, we are actually finding that in each of these rural areas, these are completely new products and in most cases we are the first company to reach these places and actually the first fellows to directly deal with the fellows. So, on a consistent basis, we are seeing demand not only from the core products, but also from these categories.

Arnab Mitra:

Okay, understood.

Bharat Puri:

The example I can give you is Araldite. When we took over Araldite, it virtually had no rural sales. It is now slowly and steadily building a strong rural presence for itself.

Arnab Mitra:

Got it. And one last question on the quarter itself. So, this price, the gap of 4% to 5% between volume growth and value growth in the consumer & Bazaar domestic business, is this given that you may have taken some price corrections, is this likely to continue into the second-half till those price becomes standard price with 4% to 5% gap and the other related question was, the volume growth while 8½%, 8% is a good number, it has slightly slowed down from the 12% you had last quarter. Is there a little bit of an impact on the festive timing here?

Bharat Puri:

So, again, good questions. Firstly, again I will go in the reverse order, as far as slowdown of growth is concerned, really in this quarter actually if you see was fairly challenging from a physical environment point of view. You know you had this extremely wet July, we had massive disruptions for 10-15 days especially in the North. One of our own warehouses was out of action for seven days because it was like we thought it was in the safe area, it was almost as if it is in the middle of a lake. So, we had a fair amount of disruption, and therefore if I look at the overall growth vis-a-vis the disruptions, we don't find any great difference between quarter one and quarter two while obviously there is a difference in the number, but steadily it is moving forward. It is not like some categories have slowed down, some are slower, we are not so festive oriented and so seasonal, there is some amount of seasonality for us also, quarter 3 tends to be a big quarter. So, having said that, therefore as far as we are concerned, we are fairly optimistic about, as long as this geopolitical situation does not get out of hand from an oil price point of view, I think the next two quarters should also you know in a sense mirror the first half.

As far as the volume value gap is concerned, I think it will take about six months to bridge. We are clear to offer value to the consumer and if we are getting the benefit of input prices, we must do that in the form of price adjustments to our customers and therefore the final consumer. Therefore, in my view it will take another two quarters before it actually evens out.

Arnab Mitra:

Thanks for your answers. All the best.

Moderator:

The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi:

First, a bookkeeping question, what is the difference between domestic consumer and Bazaar and standalone consumer and Bazaar and last quarter I think standalone had a volume UVG of 8% and I think domestic had 12 and this quarter both are very similar. So, just want to understand what is the difference there and again on the four-year basis when we look at the numbers that we have historically reported, maybe some of the quarters you reported standalone or only volumes. So, that four-year CAGR comes to about 11%. So, a request if you could in the next quarter in a presentation if you can have a time series data of the past few quarters either domestic or standalone something that is consistent UVG and yes, so that is the first question in terms of what the difference is.

Sandeep Batra:

So, the difference is basically the exports that we do from India of consumer and Bazaar products, they get exported to many geographies, Middle East, Africa and the

likes and exports both of B2B and of consumer and Bazaar has been challenged for the last few quarters, we did see a small recovery in this quarter. So, exports of consumer and bazaar products were also in the positive territory. So, the difference between domestic consumer and Bazaar is A - the exports that we do and at a consolidated level, the consumer and Bazaar would also include sales of ICA Pidilite and a couple of the other units that we have outside Pidilite, which served the domestic consumer and Bazaar segment, but your point is well noted Jay that in the next quarter, we will share the historical data, so that the definitions and the numbers are comparable.

Jay Doshi: Thank you. Second is, what is the cumulative price cut that you have taken so far at the portfolio level over the last six months or maybe nine months from the peak pricing?

Bharat Puri: See, that is a very difficult question because you know pricing across say for example wood working adhesives is very different, across the waterproofing range is different, consumer products, so weighted average is different, but at a gross level it would be about close to about 3%.

Jay Doshi: Understood. And will there be further price reductions or price cuts, I heard your response to Arnab's earlier question, but I am assuming you know that is more to do with the base effect, but are you going to further cut prices or you think based on the commodity prices right now this this level is right level to be?

Bharat Puri: Based on the commodity prices this seems appropriate, but if we again get some windfalls on so forth, we don't know, we are clear that our focus will remain on underlying volume growth, keep pushing the volumes, we know that we will recover the values as time goes by, so if there is some further reduction in input prices, we see some other problems, some more opportunities, we will do that because finally we must offer value to the consumer and the right margin

Jay Doshi: And final one, I read the press release in about a doubling of A&P spent. So, that explains the increase in other expenses to a large extent. The employee costs are up about 20% both at a standalone and a consolidated level. We just want to know are these investments in the decorative paints initiatives or are these investments in the rural penetration that you earlier talked about, because employee costs had come off as a percentage of sales during COVID, but it seems to have gone up to a pre-pandemic level, so?



Bharat Puri: See, this is basically three things, Jay. One is clearly we are investing for the future. I mean just to give you a perspective, we put up in the last 18 months, 12 new plants, right. It will take time before they reach capacity and they are obviously manned at a certain level. So, therefore A) it is investments in the future. B) it is definite investment in new categories. As categories grow, the growth and pioneer categories grow, my definition pioneer categories are front loaded in terms of people investment and the return comes back a little later and therefore that is the second thing. The third is last year, please remember that inflation was also high and therefore overall increases across industry have been high and since value growth are not high, the number is in a sense reflecting, but it is nothing out of the ordinary

Jay Doshi: Understood. Thank you so much. That is it from my side.

Moderator: Thank you so much. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My first question is just again clarifying on this volume value gap, do we expect this to moderate as we progress through the second-half of the fiscal? Is that the fair understanding?

Sandeep Batra: So, just to give you some data points, I think our last price increase last year was in the second quarter. So, after second quarter, we did not take any price increase. The first reduction that we did in pricing was around the end of March. So, to that extent, yes, whatever has been the price adjustments in the second quarter would remain for the rest of the year and the second quarter price adjustment, while for the first half it was 3% reduction, but the second quarter was 5%, and that certainly will continue for the next couple of quarters, but as things stand on the input cost front, we are not looking at any additional price adjustments as of now.

Latika Chopra: Sure, and you mention I think the VAM consumption price of \$1,000 if I am not mistaken and does that imply that there is a very good gross margin progression that we are witnessing now, so this should continue to improve through remaining part of the year. So, probably, you are already at 22% margins in this quarter, I understand the range is 20-24, but hopefully we should be on the higher side of this, unless you see firming up of raw material prices in a significant manner?

Bharat Puri: Good to hear from you, Latika. We are already actually seeing some amount of warming up as far as VAM is concerned, it has started to go up a little. We are comfortable right now for the extent of the increase because we would expect it to



remain in a range and it is within our range, therefore from a margin point of view, we will stick to 20-24. Let us see how it actually pans out. We will continue to invest behind the volume growth, rather than worry about the margin going higher.

Latika Chopra: Sure and then the last bit was any comments or any updates you would want to share on your paints foray?

Bharat Puri: So Latika, you know this as well as I do, all big companies when we do something new, everything is a great success for the first 3-4 months. So, give us some time, as we said this is the pilot which we will take six months to come back on, give us till the first quarter of the calendar year, then it will be clear where we are, how are the purchase rates, so on so forth. Right now, we are in the what I would say launch or little post launch phase, so there is a lot of excitement in the field, but I would wait to declare success. Maybe four months later.

Latika Chopra: Sure, Bharat, thank you so much and all the best.

Moderator: Thank you so much. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Congrats on a good set of numbers. My first question is on Pidilite Ki Duniy, these 10,000-12,000 outlets that you have, how much do they contribute to your turnover?

Bharat Puri: Let's just say to our rural turnover, these are what I would say a good investment. I would not like to go into the numbers of exact numbers, so on so forth, but obviously there are 12,000 and they are slowly and steadily moving up. This is an initiative that is working for us.

Percy Panthaki: And are these purely Pidilite products or this is like a branded store where Pidilite is more visible but there might also be some other company products also in them?

Bharat Puri: No, it is definitely a branded Pidilite Store, as you go to these villages, the shop tends to keep everything from you know Hawaii chappals to Fevicol. So, they will have a lot of other products, but a lot of times our experience Percy is that in the home improvement category, they may have other products, but we are normally probably one of the few companies that reaches directly.



- Percy Panthaki:** Right, and what exactly is the sort of channel here? Are these people who run the stores, I am sure they are the village entrepreneurs and then you supply them directly from the depot. Is that how it works?
- Bharat Puri:** We supply them by our distributor network and what we do is we normally have a 2member team which is a demand generation cum servicing team and which helps the village entrepreneur also learn and develop demand for the product so that it gives them regular rotation. It is a completely standalone team.
- Percy Panthaki:** Understood. And in your experience, do most of these 10,000-12,000 stores sort of make a decent ROI for the entrepreneur or do you have to give an additional support to him over and above the normal terms of trade for him to make an ROI?
- Bharat Puri:** See, in India, all the entrepreneurs are smart and making the ROI. We do not give individual incentives so on. We may spend more in terms of training, so on so, but we do not give extra margins and so on. Automatically, they find their own level and they will reach a certain rotation and remember these guys again stock a vast variety of products. So, therefore it depends on what is the variety of products the person has.
- Percy Panthaki:** Right. And last question on this Pidilite Ki Duniya is that on an average what would be the pop strata of these towns or villages in which these 10,000-12,000 outlets are there?
- Bharat Puri:** Basically between 5,000 and 10,000.
- Percy Panthaki:** Okay. Second question again, I know this was asked by the previous participant, but on paints just wanted to know which are the states in which you are running the pilot currently?
- Bharat Puri:** In AP, Telangana, and Orissa, only in towns with a population of below 50,000.
- Percy Panthaki:** Okay. And to the extent you feel comfortable, can you tell me what is your take on the paints initiative in the sense that what are you going to do in order to sort of differentiate yourself or win in the market, is it going to be mainly a small town or is it going to be mainly in the low end business, even within the low end, I am sure a lot of the top players still have a fairly wide range even in the low end. So, really what is here for a consumer or a contractor to choose Pidilite products over some of the more established names?



Bharat Puri: You know, Percy, I would request you give us three months and we will give you all the answers. Right now, we are quiet as like the proverbial, we are paddling under the water. Let us keep paddling for some time before we give you the answers.

Percy Panthaki: Sure. Makes sense. That is all for me. Thanks, and all the best.

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

Tejas Shah: So, you spoke about rural or nonurban doing very well for us relatively, but there is no consensus if we pick up from other players this time and then consumer companies on rural growth. So, just wanted to know is this an outcome you also spoke about the distribution initiatives that we had taken in last 24 months, do you think it is largely in outcome of that or the rural demand itself was very relatively better for the industry at large?

Bharat Puri: See, I think what we have to distinguish in our case is as far as Pidilite is concerned, we do not have any items or very few items of mass consumption. So, in our case, we have to first create the demand, educate the user, and this is a process we have been at for three to four years. Our products also from a perspective of usage tend to be middle class and lower middle class and above is how I would put it. So, I would say the mix of both things. It is also innovation across the newer categories that we put into rural areas. We have done specific work on innovation in rural and semi-urban and also as far as construction is concerned and you would see this even via cement sales or even accounting for the boom in infrastructure, we are not finding demand as much, while it could be better and we would all want it to be better, it's not depressed as far as our sector is concerned.

Tejas Shah: Got it and you also spoke about Araldite doing very well in rural. So, was just wondering before we took Araldite to rural markets, were they are not using this product at all or any substitute product or were they using anything from our own portfolio of Fevicol and now they have moved to Araldite?

Bharat Puri: See, a lot of them did not realize there was a lot of stuff, when you want to create an unbreakable bond, there is a solution available. So, now actually a lot of times you were competing against non-usage. You just assume that there is not a solution possible. Also, in some of the markets like Gujarat, UP, Madhya Pradesh, companies like Astral were stronger in the rural network and Araldite, being a Huntsman product, was not there. So, I suspect there's also some element of market share game.

Tejas Shah: Got it, got it. Sir, second question is on competitive intensity in waterproofing. So, all paint players have made foray in last two years and initially they are sharing very good traction there on the respective earning calls. So, I just wanted to understand from you as an industry leader how are you seeing competitive landscape shaping up and is there any pressure point building in terms of pricing or shelf space war?

Bharat Puri: See as far as waterproofing is concerned, you are absolutely right that every single paint company has moved into this space. The cement companies are also moving into, are in the space, but what we are finding is given the large causal market that exists because where people were not using waterproofing, the market is starting to grow at a faster pace plus a lot of these people tend to be to be fair if I was to say as far as waterproofing is concerned of the paint companies, I think at best two of them are making any substantial headwind and that is also largely in the repainting and renovation segment, not in the new construction segment. When I look at my growth rates, whether it be in this quarter, this first half or the last four years, for us, waterproofing continues to be a strong driver of growth. Now, the market is also growing, but I do not believe in any way we are losing share. So, you know in a sense it's helping the market grow faster, ours obviously emphasis therefore keeps on A - building our brand, B - making sure that we innovate more than the others, and C - that our route to market also keeps expanding rapidly. Remember there is also a substantial route to market which is non-paint in waterproofing.

Tejas Shah: Got it and Sir, last one if I may, so we have now tail of pilot projects. I won't call it long tail yet, but tail of pilot projects like paints and now lending business, which are very execution heavy business. So, for example lending, we call it lending, but it is more of a collection business. So, you need a lot of feet on street and paints also, it is supply chain heavy. So, we do not have a dearth of financial capital for sure because of very good cash flow, but how are we going about the managerial or execution capital which will lead on the ground to see some scale in all these businesses?

Bharat Puri: See, one is remember as I told you, to separate the two businesses. The lending business is going to be a standalone business not drawing upon any Pidilite resources in a substantial fashion in any way of Pidilite peoples etc. So, therefore based on its requirement we will look at it, study from the pilot, come back and tell you fellows in six to nine months in the pilot how it has worked and therefore whether the business model needs tweaking and how it is going to go forward. As far as paint is concerned, remember we are already in the channel as I told you, one of the reasons why we got into paint was that we were already servicing these dealers and they were

saying listen, to just complete the range we have to go to another company, why don't you come to us. So, actually for us paint is not manpower accretive. I mean in all of these towns, we already had people. Remember in the small towns, why have we gone into the smaller towns first, this is normally counterintuitive. Every other company goes to the last cities first. We have gone to the smaller towns first because the outlet is common. We are already servicing the outlet. We already have a relationship with the outlet and therefore we are building from there onwards and therefore for us the accretive manpower will only be around education and demand generation, not around servicing the trade.

Tejas Shah: Got it, Sir. That is all from my side and Diwali Greetings to the team.

Moderator: Thank you so much. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: So, first question is very simple, when we look at incentives or basically rewards for carpenters or influencers, what is the typical tenure? Is it less than 12 months or does it extend for over two years, three years?

Bharat Puri: See what happens, Ritesh is, it depends on the size of the carpentry contractor, but a lot of fellows like to bank points for a large period of time so they can get a more substantial gift. I mean, somebody wants a motorcycle, somebody want something, so it is not fixed, but the relationship is a long-term relationship.

Ritesh Shah: So, would it be possible for you to quantify to what percentage of the rewards is less than 12 months, so 60% is usually 12 months, 40% over next two years? The reason why I asked Sir, I just wanted to understand on the accounting side, when we report the revenue number, is it net of incentives or there is something, there is a bucket which sits in the working capital, and as it stands realized that gets adjusted on the top line because it will have implication on both working capital as well as margins?

Sandeep Batra: So, it has no implication on working capital. We recognize these and they get netted off from sales. So, our sales number is net of whatever contractor reward program we would have run. Typically, these are all today digital, nobody puts any physical tokens and generally the token or the QR code or whatever have a life of about three years.

Ritesh Shah: Okay, but we will recognize as say, if I am a carpenter, if I get something, if I buy something right immediately the company will recognize it, and that is the net revenue that we look at, is that the right way to understand it?

Sandeep Batra: Yes we follow the appropriate revenue matching concept.

Ritesh Shah: Okay. That is helpful.

Sandeep Batra: Yes, I mean our accounts are reviewed by reputed auditors, so rest assured that we will follow accounting policies which are acceptable to the auditors, right.

Ritesh Shah: Sir, the reason to ask the question is there are few other listed companies which do not do so. So, obviously we look at you as a gold standard so, I just wanted to check that. Sir, my second question is on Araldite. You did indicate around 12% volume CAGR since acquisition. You also indicated there could be some market share gain. Sir, is it possible to give some numbers? I think at the time of the acquisition you had given epoxy sizing around Rs. 1,200 to Rs. 1,500 crores and I think Araldite at that point in time was around Rs. 400 crores. So, can you give some numbers over here? Have we recouped to Rs. 2,100 crores, I think that is the amount which was paid, how could they look at this?

Bharat Puri: What I can tell you very safely, Ritesh is two things. One is prior to the acquisition of Araldite, when Huntsman owned the brand, their average growth rate of the brand was in a volume sales between 6% to 8%. Ever since we have acquired the brand, on volumes we have grown the brand in excess of 20%. The second thing, again to answer your question, therefore when we had done the acquisition and made an acquisition case, we are beating the acquisition case by a large measure and therefore it is something that has worked very well for us.

Ritesh Shah: Sure and Sir, would it be possible for you to quantify on the market share gains that you indicated?

Ritesh Shah: It is very difficult because we did not know the size of the rural markets as we have gone in. So, if you look at for example in this business pretty much we have one big and a few small competitors, the big competitor being Astral and you can see that their adhesive has been fairly stunted ever since Araldite has come. So, I suspect there is an impact there, but we have also helped in expanding the market substantially in small towns and rural.



Ritesh Shah: Sure. That is helpful. Sir, I just had two follow-ups, would it be possible for you to qualify PVA as a segment, so what percentage of its that is in retail versus joinery and how the trends have been recently and how do you see this going forward?

Bharat Puri: See, this is the question that keeps getting asked. The fascinating thing in India is joineries are growing faster than the retail business. So, 10 years back we did a study and we were under the assumption that at that point of time, the market was 90% on site and 10% off site, which is in joineries, the assumption is set of consultants made was 70:30. Frankly, 10 years later it is still 85:15. So, while joinery is growing, remember in large parts of India, minus the metros, people still prefer to get the furniture handmade at home.

Ritesh Shah: Correct and Sir for us, how would the mix be like? Will it reflect more of industry benchmarks or is it something more on the retail side I presume?

Bharat Puri: No, no, actually the good thing is, is we are leaders in joinery and we are leaders in retail in both. So, in our case we make sure that in both cases we lead.

Ritesh Shah: And Sir lastly, would it be possible for you to provide some color on waterproofing? What have been the trends like, market sizing, where we are, if possible, any numbers that would be really useful, Sir?

Bharat Puri: See, it is very difficult to put markets sizing because every paint company keeps adding all exterior paints to waterproofing and adding a lot of paint to waterproofing coatings. Some of it is used for waterproofing, some of it is used for painting, and there is a space in the middle which could be common between the two. So, it is very difficult to estimate the size of the waterproofing market. Given our estimates what we are seeing, we would say for example that the market is definitely growing in double digits. The market is growing anywhere between I would say 10% to even 12%-13% by volume is our estimate currently and it is growing at all three levels, it is growing larger the institutional level because as more organized buildings, factories, large commercial complexes, hotels are coming up. That is a large segment. It is going substantially in individual housing, which is new construction and it is also going in repair and renovation. In each of the three competitors tend to be different. In the large institutional space, the competitors are mainly the multinationals of Sika and Fosroc. In the new construction space, a lot of times we will compete with these cement companies or the similar Fosroc's of the world. In the repair and renovation, the competition would be with the paint companies. It is therefore difficult to ascertain across, I would say that over a three to four-year period, the market has

grown substantially and the fastest part on the market probably is right now, the new construction.

Ritesh Shah: Right. So, Sir, if I had to put it the other way around, how would we gauge our success in waterproofing, like are we beating the market growth rates by a significant margin? What is the benchmark that you use?

Bharat Puri: Our benchmark is simply, we must grow faster than the markets across all three segments.

Ritesh Shah: Thank you so much. I wish you all the very best. Thank you, again.

Moderator: The next question is from the line of Sachee Trivedi from Trident Capital Investment. Please go ahead.

Sachee Trivedi: One of my question is that for the last four quarters we have been growing topline in single digits and I understand you have been taking pricing cuts and the prior four quarters we were growing double digits and that was more because we were taking price increases and just going forward what should we expect in terms of top line growth and can we go back to steady double-digit numbers that are based on volume growth rather than the pricing ups and downs that we have seen in the past couple of years?

Bharat Puri: Sachee, I think that is a great question. If you look at our four-year CAGR, you would see on a revenue basis it is double digit and on a volume basis it is close to double digit. Now, you will have these ups and downs because of this extreme volatility that we have had in raw material prices. We saw VAM touch \$2,500 a ton and it is now you know \$950 a ton. So, really, but if I equalize over a four-year period, we clearly believe that again both from a revenue and volume perspective, our objective is to grow volumes double digits, hopefully premiumize, improve mix a little bit, and therefore also grow value at a little above the volume - that would be our steady state if life was a lot more even that's what we would be aiming for. So, right now for example, our focus is to get from our current volume growth to double digit volume growth. We believe in the next three to six months the value will start coming back and we will be well positioned because again we would have added another few hundred thousand tons to our volume.

Sachee Trivedi: Got, Sir. Actually, I am glad you pointed out the four-year numbers because the four-year numbers whether I look at Q2 versus the four-year prior Q2 or H1 versus a four-

year prior H1 and those numbers are like under 15% CAGR. We do believe, that we can grow 1.5X to 2X of GDP and these numbers, at least a nominal GDP, seems shy of that. So, how should we think about the growth correlation with the GDP over the overall economy?

Bharat Puri:

I would definitely say that there would be 1½ times volume of real GDP and when we track our factory, we have done this thing around over the last 10 years, almost on a consistent basis we have beaten the 1½ times real GDP on volume. Value, we have had so many ups and downs whether it be the GST, before that demonetization, then we had the COVID issues, then Russia/Ukraine. So, the best thing is to do is see it over a longer period of time. I would submit in the whole home improvement sector still from a volume and possibly revenue, we would be in the top quartile and maintaining profitability at very healthy levels.

Sachee Trivedi:

In one of your comments you mentioned that where you are seeing sort of pick up or growth as in the new construction space. Now, again going back a few years, you have said that if both the new construction and the renovation if both of those engines fire, then you kind of look at very strong volume and value gains from there and what would it take, what is holding back the renovation because I thought like new construction is the harder one and renovation is the regular one that keeps going?

Bharat Puri:

See, I think your guess is as good as mine, but this famous rural slowdown, I mean post COVID, there has been a bit of a K-shaped recovery and I suspect for both, for life to be good for all of us, from K it has to become a hockey stick.

Sachee Trivedi:

Yes. But you mentioned on the call that your target segment is lower middle class and above. So, you are in the better part of the K, isn't it?

Bharat Puri:

Without doubt, , I also head CII, FMCG Committee and when I am speaking to them, for them like 8% volume is a massive movement forward because most people are struggling between 0 and 3 or 4, largely because off again items of mass consumption suffering and it is not that demand for the rest has been buoyant across large parts of the country, but I would say if I was to take a step back, Sachee what is our goal, it is double digit volume growth and hopefully with a certain amount of premiumization, better mix, innovation, moat at the top end, improving value and inflation hopefully will come back stably to around 3% to 4%.

Sachee Trivedi:

Got it. Thank you very much for taking my questions.

Moderator: The last question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Bharat, you mentioned about the new construction site growing the fastest. So, what is your reading of seeing a real estate upcycle and normally in such times you tend to benefit. What is your reading, what is the benefit that you are seeing in the business, does it come with a lag, do you expect more traction in some of your businesses that are linked to new construction going forward or right now the numbers that you are reporting already captures that and finally as per my understanding there are three legs, one is the urban real estate residential, one is commercial, and the third is independent housing units in small towns. So, what is the growth or traction or activity you are seeing in each of these segments, so broader overview?

Bharat Puri: Sure. See, what we are seeing is clearly organized real estate. See, frankly, individual housing in the towns has not suffered a large amount, except during COVID. That has been one segment that is held up well. It is residential real estate in the 10 lakh plus town, especially the organized real estate, we tend to see an impact which happens between I would say two to four years depending on the project completion is when, because a large part of our products with the exception of new construction, waterproofing, all come into substantial play when the flats are at a finishing level. So, if now you see a lot of new announcements, you will see our demand start peaking 18 to 24 months depending on the construction cycle.

So, given the current situation where fortunately also there were a lot of unfinished or unsold flats that are getting sold, you are beginning to see up, but hopefully in this new announcements and therefore new starts continue, you will see good movement forward. Really, we are also very hopeful about is the commercial real estate and factories, because if manufacturing 2.0 or China plus one, whatever you call it, if that was to come, that again becomes a substantial driver of growth because a large part of these buildings all use sophisticated products and therefore we find the benefit. To give you an example, Samsung built this big factory in Noida. Kia built this big factory in Andhra Pradesh. All of these are waterproofed by us. I mean, if you have the second manufacturing boom, then again that tends to benefit, but let's wait and see.

Jay Doshi: That is very helpful. One last final one. Do you have a playbook to penetrate into renovation repair part of waterproofing, the painters led route to market, so you have a playbook there or still sort of?



- Bharat Puri:** Oh yes, absolutely we have a playbook. In fact, we have a substantial presence there. Remember that in that area also we have a playbook. We have a set of products. We have again a whole dealer network across the country. So, yes, we obviously play there as I said that is an area where the competition is paint companies whereas in new construction it tends to be others, in commercial real estate it tends to be a third lot, but we play across all three.
- Jay Doshi:** Understood. Thank you so much and Diwali wishes to everyone.
- Moderator:** Thank you so much. I would now hand the conference over to the management for the closing comments.
- Sandeep Batra:** Thank you very much. I have no closing comments rather than wishing all the participants and their families all the best for the Diwali and the festive season. Stay safe and we'll connect again in the New Year, after the third quarter numbers.
- Bharat Puri:** Thank you everyone and wishing all of you, your families a very happy Diwali. Hopefully, have a restful break and see you in the end of the third quarter.
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(This document has been edited to improve readability)