



**“Pidilite Industries Limited Q1 FY2014 Results
Conference Call”**

August 14, 2013



**MANAGEMENT: SANDEEP BATRA – DIRECTOR FINANCE, PIDILITE
INDUSTRIES**

MODERATORS: MR. J RADHAKRISHNAN – ANALYST, IIFL CAPITAL LTD.



*Pidilite Industries Limited
August 14, 2013*

Moderator

Ladies and gentlemen good day and welcome to the Q1 FY14 Results Conference Call of Pidilite Industries hosted by IIFL Capital Limited. As a reminder for the duration of the conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing * and then 0 on your Touchtone telephone. Please note that this conference is being recorded.

I would like to hand the conference over to Mr. J. Radhakrishnan of IIFL Capital. Thank you and over to you, sir.

J Radhakrishnan

Good evening ladies and gentlemen. On behalf of IIFL Institutional Equities I would like to welcome you all for first quarter FY14 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 on to the Q&A session. Over to you, sir.

Sandeep Batra

Thank you Mr. Radhakrishnan and very good afternoon to everybody on the call and at the outset again I would like to thank you for your interest in Pidilite. Before we take the question and answer I will just give a brief update on the results which were approved by the board at its meeting yesterday. Consolidated net sales grew by 12.1% over the same quarter last year and were at 11,188 million. EBITDA before non-operating income at Rs. 2287 million grew by 21.1% and the EBITDA measured as percentage to sale improved to 20.5% from 18.9% last year. Profit before tax at Rs. 2213 million was up by 24.5% over the same quarter last year.

Look at now the standalone performance. The net sales for the quarter cross the Rs. 1,000 crores mark for the first time and grew by 11.3%. Material cost to sales as a percentage was 140 basis points lower than the same quarter last year. Other expenses during the quarter were higher than last year by Rs. 140 million mainly because of increased investments to step up demand generation and higher spend on media. EBITDA prior to exceptional items at Rs. 2240 million was 17.5% higher than the same period last year. Finance cost for the quarter at Rs. 36 million is substantially lower than last year due to the repayment of the FCCB's in December of 2012. Profit before tax and profit after tax are higher by 21% and 21.7% respectively over the same quarter last year. The consumer and bazaar segment grew by 13.2% and the PBIT for the segment grew by 20.8% largely due to lower material cost.

Industrial products continue to have head wins largely in domestic sales and overall segment revenue grew only by 0.8%. The segment PBIT however declined by 15.1% largely due to increases in input cost which could not be passed on by way of commensurate price increases. Quick look at the performance of the overseas subsidiaries. Sales as reported have grown by 19% however that has about a 4.8% translation impact therefore in constant currency terms sales would have grown by 14%. Large amount of this growth has been lead by the operations



*Pidilite Industries Limited
August 14, 2013*

in South America where the sales of the subsidiary have grown by 32.7% in the quarter. It may be noted that in the first quarter of last year the operations in South America had reported a sales decline so therefore the sales growth should be looked at in conjunction with the fact that last year same quarter there was a decline in sales. However, profitability also in the South American business has improved. Material cost to sales are lower than last year by nearly 4 percentage points and while SG&A expenses have increased with a view to drive demand generation because of the higher sales growth as well as the improvement in gross margin operating losses have drastically reduced and at a rate about a third what it was last year.

The business in North America grew by around 6% with both the **Cyclo** the automotive after market business as well Sargent Art which is the Student Art Material business growing in the similar range margin also has been improved in the North American business due to selective price increases as well as better mix of products as a result of which EBITDA has grown by nearly 48% on constant currency basis. The sales for the two subsidiaries in Middle East where we have businesses in Egypt and in Dubai there the sales have declined by about 12% partly due to the political disturbance in Egypt as well as subdued performance of the subsidiary in UAE. These lower sales together with higher input cost because of unfavorable Forex have resulted in the business posting and loss at EBITDA level of about Rs. 9 million as compared to nearly breakeven performance in the first quarter last year.

The two subsidiaries that we have in South and South East Asia namely Bangladesh and Thailand continued their strong performance with sales growth of 20% largely lead by the business in Bangladesh. EBITDA for the quarter has grown by 26% over last year because of this strong sales performance as well as improvement in product mix. That is all I have in terms of brief commentary on the results for the first quarter. Happy to take questions now.

Moderator

Thank you very much, sir. Participants we will begin the Question & Answer Session. We have our first question from the line of Mr. Ankur Agarwal from Nomura. Please go ahead.

Ankur Agarwal

I wanted to understand the margins were pretty strong in this quarter you mentioned that it was spread in the consumer and bazaar division. You mentioned it was a result of lower raw material prices. Do you see these margins are sustainable for the next three quarters and what are the VAM price trends that you are noticing at your end if you can highlight that, that would be very useful? That is the first question, sir.

Sandeep Batra

So as we all know that the depreciation in the Indian currency with the rupee touching new lows largely happened in June towards the second fortnight of June. So obviously the consumption of raw materials particularly imported materials would not have happened at the kind of exchange rates that we see today. So that impact will reflect in the results of the subsequent quarter. So certainly the margins that we have seen in the first quarter unless we improve our mix or take commensurate price increases and these margins will have an impact



*Pidilite Industries Limited
August 14, 2013*

of a weaker currency going forward. VAM prices in dollar terms have held steady so they are within the \$950 to \$1000 mark. And I think I hope that answers your question, Ankur?

Ankur Agarwal

Yeah. Sir, second question is that volume growth seems to be in single digits in the consumer and bazaar business. In that context do you think this was kind of a one off thing or things can improve and in that context price increases how easy or difficult do you see that. I mean I understand that our market share is such or our positioning is such that we can traditionally take price increases. When the context of growth moderating what is the thought process on growth for the next 3 quarters and potential price increases?

Sandeep Batra

So as a company we would certainly not like to give any guidance or even any outlook on what the growth for our products could be going forward. But certainly the economic situation in the country does not seem to be improving very drastically. We certainly do see headwinds from the point of view of the overall economic outlook and until and unless that situation changes I mean to see very drastic improvement in our sales performance may be very optimistic. As far as the headroom that we have for taking price increases we were very right that given the kind of economic outlook that we see yes, taking price increases will be a challenge so we are all our various business divisions they are reviewing (a) the impact of the currency on their respective product margins and decisions of what price increase to take will certainly factor in over the market can absorb. But at this stage it would be a bit premature to comment on how much price increase we can take and what the reaction of the market will be.

Ankur Agarwal

One final question on the industrial side you mentioned that margin declined because of the higher input cost. VAM is also an input for industrial business there is a common raw material, right?

Sandeep Batra

VAM is certainly a common input. There were other inputs where cost should have increased. Other than ex VAM there are other monomers that we use in this division and I think the pricing flexibility in this division is much lower than what we have in the consumer and bazaar segment.

Ankur Agarwal

And is there some impact of negative operating leverage in the sense that sales growth was not as high or flattish sales so that may have an impact on margins or not?

Sandeep Batra

Little bit but yeah, not much not very significant.

Moderator

Thank you. We have our next question from the line of Hiral Desai from I-alpha Enterprises. Please go ahead.

Hiral Desai

Sir, my question was on the consumer bazaar products side the annual report also mentioned that the volume growth has been lower. So just wanted to check is that a phenomenon across the product categories within let us say adhesives, Sealants and construction chemicals both or there are certain pockets where the volume growth is slower?



*Pidilite Industries Limited
August 14, 2013*

- Sandeep Batra** I think the pressure on the volume growth would have been largely uniform but yes, it is more pronounced in those kinds of products which constitute part of a discretionary spending. So if you look at adhesives or construction chemicals which are required for a discretionary kind of a spend yes, the impact of lower volumes would have been more severe products which are directly used by consumers. There the impact has been lower.
- Hiral Desai** Sir, I think in Quarter 4 call you had mentioned that the volume growth was about 11.5% to 12% so what would that have been in the let us say the good old days in FY11, FY12?
- Sandeep Batra** The average volume growth if you look at a top line growth of about 19% to 20% in nominal terms volume would have been 14% to 15%.
- Hiral Desai** Sir, and the other one was there is not 25% spike in the capital employed for both consumer bazaar and the industrial product. So is that sort of higher inventory or if you could just give us a reason for that?
- Sandeep Batra** Your number is comparing it with?
- Hiral Desai** On a year-over-year basis, so this would be versus Quarter 1 of last year?
- Sandeep Batra** Yeah, so it would be higher inventory, it would be higher receivables. Largely would be on receivables and inventory.
- Hiral Desai** Sir, and any movement on the Elastomer project?
- Sandeep Batra** No, no update at this moment.
- Moderator** Thank you. We have our next question from the line of Mr. Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah** I have two questions. One is if you can kindly shed some light on the capital expenditure plan for this year and secondly on the industrial products we have seen some margin compression. What given the current scenario and the rupee depreciation that we have seen in the recent past what would be your view on the sector I mean not asking for any guidance but generally your view on the margin that could pan out over the next three quarters or so?
- Sandeep Batra** The CAPEX would be fairly I would say normal in the sense if you look at our last couple of years CAPEX excluding what we would have spent on Elastomer I think the CAPEX spent this year would be in that same range which would range between may be upwards of Rs. 100 crores, between Rs. 125 crores to Rs. 175 crores is what the CAPEX would be. As far as the outlook on the margin for the industrial products it is very I think I would not be in a position to hazard a guess as to what the outlook will be for the next three quarters I think it all depends upon (a) the demand outlook for the industrial products and demand outlook both not just in



*Pidilite Industries Limited
August 14, 2013*

India but as well as in to markets in to which we are exports and the stability in the cost regime. I think I may have covered it in one of earlier calls but in most of our products we have a lag between the cost increase and the commensurate price increases that lag in the case of industrial products may be a bit longer than in the case of consumer products. So if there volatility in input cost it will take may be a bit longer for margins to get restored in industrial products.

Moderator Thank you. Our next question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera Can you give us some sense on what was the volume growth for the quarter?

Sandeep Batra Volume growth overall see our total top line was 11.3%. We would not have taken any price increases in this quarter.

Sachin Kasera what about volume growth?

Sandeep Batra No, not in this quarter so there were price increases taken in the second quarter onwards the benefit which you would have got. So overall volume growth would have been in single digits.

Sachin Kasera 5% to 6%, sir?

Sandeep Batra May be a bit more than that.

Sachin Kasera And secondly sir, could you give us some sense on the performance of the 3 key segments in consumer, all of three out of in single lines so is there some variation wherein the construction chemical continues to grow much faster than compared to others two so if you could give some sense on how they are performing?

Sandeep Batra General we do not share the split at the sub-segment level during the quarterly performance but I think I already responded to in another question in an earlier question that the slowdown that we have seen has been sharper in the discretionary products that we have in the consumer and bazaar segment not so much in the pure consumer segments.

Sachin Kasera In fact just one last question on the foreign subsidiaries. What is the outlook there in the next one to two years, when do we see them breaking given?

Sandeep Batra So I think other than with the exception of the operations in Brazil all the others certainly are cash positives. They do not have any cash loss. Brazil is the only one where we have got an action plan to bring the business back in to black at cash level. The economy there is another challenge, the economy is not doing very well, the currency there is under pressure. So I think it will be very premature to hazard a guess in terms of time frame but certainly endeavor from



*Pidilite Industries Limited
August 14, 2013*

our side will be that on a full year basis I mean at least on a quarterly basis towards the end of this financial year we should see the operations in Brazil at least being cash positive.

Sachin Kasera

So sir, last year full year I think we had a Rs. 42 crores loss including some Rs. 17 crores of write offs. So the normal securing loss would be about Rs. 24 crores to Rs. 25 crores the operational loss. So can we look forward to a figure which would be pretty low this year compared to what we worth?

Sandeep Batra

Yeah certainly. See if you exclude the impairment that was done in Brazil of the goodwill that subsidiary was carrying. The cash losses would have been half of what the overall assets were and certainly we should see fair improvement on that number this year.

Moderator

Thank you. Our next question is from the line of Mr. Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar

Just wanted to understand the competitive landscape in construction chemical business now and how was it faired vis-à-vis the earlier growth rates?

Sandeep Batra

I would not have a numbers of what our competitors have grown at. Certainly we have seen little entrance notably a few paint companies entering in to select parts of the construction chemicals business namely the auto proofing part of the products. But at this stage it would be quite premature to draw any correlation between their presence and our growth rates. That certainly would not be also our way of looking at the business we have a certain strategy in place for the business and we are focused on executing that strategy in the market place.

Nitin Gosar

And your own growth vis-à-vis earlier growth momentum in this space would have decelerated or whether it has been in momentum vis-à-vis the earlier growth?

Sandeep Batra

Certainly growth rates overall across the board would have come down and as I was mentioning in some of the consumer and bazaar categories which can be classified as discretionary the slowing down of the growth rates has been more severe in some of the consumer run bazaar segments which are directly consumer oriented the impact of the slowdown is less.

Nitin Gosar

And one academic question with regard to construction chemical what has been your experience during the year when there has been fairly or you can say excess of monsoon what kind of volume growth you have witnessed in those kind of years if the economic scenario improves?

Sandeep Batra

I do not really have a correlation because it is very difficult to distill the growth rate in to what is positive because of the efforts that we have been doing and what is the effect of negatives like monsoon or lower GDP we do not really have that number. But we all know the kind of challenges that have happened in the first quarter notably early on set off monsoon as well as



*Pidilite Industries Limited
August 14, 2013*

heavy rains has been one of them but quite honestly other than in the anecdotal correlation to our growth rates we do not really have numbers to show that because of early on set of monsoon we lost so much percentage all because of these trader's strike because of LBT in Maharashtra we lost so much percentages. We know that these events have had an impact but certainly it is not something we have been able to quantify.

Nitin Gosar

Any update on Elastomer you would like to share?

Sandeep Batra

No update to share with you.

Nitin Gosar

And the recent acquisition would you like to highlight something on that further the strategic initiative or the kind of importance it has going forward?

Sandeep Batra

Yeah, so it is a company which has a brand which competes with Fevicol. They have fairly decent market share in parts of Maharashtra other than Mumbai. They have had a fairly good growth as far as top line is concerned in the last couple of years. So fairly good brand, good market position however fairly small size as you would have seen from the press release that their turn over is less than 1% of the total company's turnover. But yes, it is a good brand we found it to be a good fit in our portfolio and that is how the transaction happened. The plan of course is to integrate I mean to make that brand as part of our portfolio and we have a strategic rationale for that acquisition but that is not something that I would like to share at this stage.

Nitin Gosar

So there is much more which is with the company that we will see going forward?

Sandeep Batra

Yes.

Moderator

Thank you. Our next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi

Couple of questions. One is on the Elastomer I would like to know how much money has been spent till 30th June 2013 on the project?

Sandeep Batra

Total spent is about Rs. 362 crores.

Jiten Doshi

That includes how much on plant & machinery and everything else, can you give a break up?

Sandeep Batra

No, I would not really have the breakup and it includes of course the investment on land, some civil structures, plant machinery that we brought of the French company, expenditure on dismantling, shipping it to India, transportation whatever work we did here on the engineering and the design part of it. But total spent is Rs. 365 crores to be precise as on 30th June 2013.

Jiten Doshi

So Rs. 365 crores is your total spent up to June?

Sandeep Batra

That is correct.



*Pidilite Industries Limited
August 14, 2013*

- Jiten Doshi** What is the accounting treatment for that in your books in income tax?
- Sandeep Batra** We are carrying it as capital work in progress. So it is not yet something which we have capitalized.
- Jiten Doshi** In income tax?
- Sandeep Batra** Yes, we have not capitalized neither in income tax nor in our books of accounts.
- Jiten Doshi** You have taken any write down on this amount?
- Sandeep Batra** No.
- Jiten Doshi** And some time back you had said that there are some options that you are examining either to start the project on a small scale or to get a joint venture partner or to divest the entire project. Is that still a part of your strategic planning for this project?
- Sandeep Batra** I think this decision was taken by the board sometime I think in one of its meetings in the first quarter where the board took a call that the company should look at bringing on board a strategic partner for this project and till that time that decision is done there would not be any further commitment or expenditure on the project. So that is the stage that we are at. We are in the process of looking for a strategic partner for the project and the next steps on the project would then be decided once we have a partner on board.
- Jiten Doshi** And sir, you are right now end of the year you are sitting on about Rs. 300 crores to Rs. 400 crores of cash and basically as you get in to at the end of this year you will be on more than Rs. 500 crores to Rs. 600 crores of cash. So what would be your plan for cash utilization this is after assuming that you are going to do a Rs. 150 crores of CAPEX the Rs. 100 crores to Rs. 150 crores?
- Sandeep Batra** I think we will obviously the first and the best option would be redeployed that cash in to the business. Now whether that is organic or inorganic would all depend upon what options and what opportunities present itself. But certainly that would be the first objective is to redeployed in to the business.
- Jiten Doshi** And this is after if you take a look at your numbers right from 2006 on a consolidated basis this is the first year in which you are sitting on this cash otherwise you are on a net debt for last three to four years?
- Sandeep Batra** Correct.
- Jiten Doshi** So does this mean that you will once again reignite your inorganic strategy because you have lot of free cash lying with you little aggressively?



*Pidilite Industries Limited
August 14, 2013*

Sandeep Batra

No, I do not think there is any correlation between having cash and then finding a target. I think these two are independent events. As a company we are on a continuous basis **to evaluate** such inorganic opportunities and if that opportunity were to be right we would certainly put money behind that opportunity. It has got no correlation between the fact that we have money on our balance sheet so therefore we will go and look for an opportunity.

Jiten Doshi

And sir, one more observation my last one. That is for the last 8 years you are on a complete consolidated basis if you take all your overseas subsidiaries put together they have been making a loss. In fact last year net loss from all subsidiaries put together of course Brazil being the largest both approximately Rs. 43 crores. So given this track record of the last 8 years of very unproductive kind of environment in the west or wherever you have invested in other markets would you put a stop to overseas acquisitions now because they have not really paid off in the last 3 to 5 to 7 years?

Sandeep Batra

I think we did it was never a stated objective but if you look at the last acquisition that we would have made was in 2007 so after that we have not made any acquisition outside of India largely because of the realization that the company needed to first integrate the acquisitions that have been made and make sure that these acquisitions performed to the standards of performance that would be expected from a Pidilite entity and that is why we did not do any acquisitions for the last 6 years. Now obviously the main objective for this year would be to get the Brazilian business back on track. Initial results particularly for the last three quarters has been encouraging. We certainly now wish to see the Brazilian business first to stop making cash losses and once you have got the present businesses properly resourced and performing to the desired level of expectations yes, we could certainly look at other opportunities but I think I may have mentioned it in some earlier call. We have probably more sharply defined the areas where we would like to look at inorganic opportunities which would largely be emerging markets and certainly look at companies which are having strong market position in their respective countries.

Jiten Doshi

So I am sure you have a deadline for when this overseas subsidiaries will breakeven and make a profit, can you guide us on roughly how much of time would that take one to three years because it is dragging down the overall profitability and the return on capital employed, so basically it is not really contributing to the financials of the company?

Sandeep Batra

Certainly, I think your observation is very correct. But if you look at the performance of these subsidiaries individually the main focus area would have to be on the performance in the Brazilian operation where in this quarter itself I think the losses at EBITDA levels has come down from may be Rs. (-4.5) crores last year to may be Rs. 1.5 crores this year. So if we are able to maintain this level of improvement in the Brazilian business then the sooner rather than later it will stop making cash losses which would be the first milestone for us. There after of course we are looking at other structural interventions in the business in Brazil including expert help if need be for us to restructure our manufacturing costs there which would then



*Pidilite Industries Limited
August 14, 2013*

take us through the next level where these businesses then on a standalone business also make money. In terms of time frame it would be quite premature at this stage to give any indication of any time lines but certainly yes, in the near future we would like to see the Brazilian business first to be making cash profits and then to be making profits before tax.

Moderator Thank you. Our next question is from the line of Mr. Lalit Kumar from Nomura Securities. Please go ahead.

Lalit Kumar Sir, my first question is regarding domestic consumer and bazaar business. So if I see all three segments in FY13 art material that business grew by 35% versus the historical average of 10% to 15%, so just wanted to understand that what all initiatives have we taken, was this growth driven by introduction of new products or was it driven by a strong demand or what was the reason behind it?

Sandeep Batra I think the growth that you saw last year in art materials was a combination of various factors. There were various products in our portfolio which were not growing to their potentials so there were some intervention required not only to may be make the product look fresh and new but also to change our communication on that product. We also had to at the same time look at a different distribution model for the product. So it would be a combination of all actions not only a new product introduction which would have done the job. So it is a mix of actions. We have a large portfolio of products each has got some issue or the other in the market which was addressed and therefore we got the results by way of growth last year.

Lalit Kumar Sir in that case do we expect growth in art material to be strong going forward? Are those products now having right channel communication so those products you will continue to do well in the coming years?

Sandeep Batra Well, yeah I mean for the time being yes. The impact of the slow down is lesser in these consumer oriented products so we certainly are experiencing good growth in these markets. We are looking at options where the successes in India if they could be replicated in some neighboring countries where the demographic profile is similar to India. So a large number of actions are underway and I think it will probably not be right to share all of that at this forum but we are doing enough and more to address all the various drivers for growth.

Lalit Kumar And sir, my next question was regarding this industrial product business so you said in the opening remarks that domestic business was not that great in Q1. If you can throw some light how was our export business in Q1?

Sandeep Batra Export certainly did better than domestic. Domestic had a decline in sales. We all know how the industrial output in India has been performing so it is minus in the first quarter. Our industrial business was in line with the IIP growth in India. So sales declined in the first quarter. They were made up by growth in exports. Exports, however, is not the dominant part



*Pidilite Industries Limited
August 14, 2013*

of the business. Domestic business is the dominant part. So despite exports growing in the first quarter it only partly offset the decline in the domestic business.

- Lalit Kumar** Sir, which are the major geographies to which we export our industrial products?
- Sandeep Batra** I think we have exported probably all over the world but largely it would be Middle East, Africa, some customers in US largely emerging markets and plus few customers in the US.
- Lalit Kumar** And sir, how will our margin profile looks for export and domestic export will have a better margin than domestic business in the industrial products?
- Sandeep Batra** It will depend on products it will depend on customer it would depend. But it will not be very dissimilar.
- Moderator** Thank you. Our next question is from the line of Avnish Roy from Edelweiss. Please go ahead.
- Avnish Roy** My first question is on the lower unit pack. Sir, what we are seeing in food companies is because of raw material inflation Rs. 5 pack is becoming unsustainable. So in your case for example Fevikwik there is this Rs. 5 pack and the quantity in that is good for a single usage but with the raw material inflation how would you see this will we have to vacate this Rs. 5 price point or cutting the quantity will be very difficult I guess?
- Sandeep Batra** Yeah, so I mean in our case certainly if Fevikwik were to be an example we do not see any such compulsion that we may need to vacate that space if the dominant part of the Fevikwik business. And at the moment certainly we do not see need to vacate that space.
- Avnish Roy** But sir, the way raw material inflation has been there for the few years and Rs. 5 price point we are managed to keep. So does it mean we are doing a product reengineering to an extent or the margins are much lower versus what was say a couple of years back?
- Sandeep Batra** No, I think the main positive to maintain the Rs. 5 but the point has been volume growth. So if we are able to get a reasonable volume growth then that volume leverage significantly offset the input cost inflation. So while the raw material may have inflation there are enough and more avenues to do value engineering may be in packaging items, may be in distribution. So I think we are at least in few of our price point products not seeing that kind of a compulsion.
- Avnish Roy** But in the initial part of discussion you mentioned the LBT impact to an extent. Sir, what happens in such a case when the strike ends? Is it a lost opportunity or that customer in someway comes back?
- Sandeep Batra** It is a very good question I really do not know what would happen. But I guess what probably happens is that in the case of discretionary products that demand gets postponed so that



*Pidilite Industries Limited
August 14, 2013*

demand does not really get replenished in the next month. It is just that you lose that opportunity for that particular month. It is not made up by double the volumes in the next month or something like that. So it is in my view a lost opportunity.

Avnish Roy Sir, I joined a bit late if you could tell us the more discretionary part of the consumer products I do not know if it has been discussed which we have been saying has faced more slowdown and in the LBT also you said it is kind of a lost opportunity. So which are the brands or products which you would regard as more discretionary?

Sandeep Batra In our portfolio let us say anything which is used for home improvement or for repairs those are all expenditures which the end consumer could well postpone and we have seen evidence in 2008-09 when at the time of that slow down it were products of this nature so at that time it was a Fevicol some brands in construction chemicals which saw at that time more deceleration in the demand than some of the more consumer brands.

Avnish Roy Sir, my last question is on rural versus urban good monsoons and most other companies are saying rural continues to grow much faster than urban especially paint companies. So in the past you have said it is very difficult to dissect both but still what is the broad end you are getting in terms of this?

Sandeep Batra So in our case also I think the channel that we have which sells to these smaller geographies the channel that we call as Rurban that has been growing much faster than the urban growth. So that certainly holds true in our case also that that rural part of the growth has been faster than the pure urban growth.

Avnish Roy And sir, one last one on the advertising front TAM related restrictions on the inventory. We also do consume the TV media so to that extent how worried are you that your ad budget might over shoot versus what you have kind of a built in. Any sense you are getting from the channels or the advertising agencies?

Sandeep Batra No, I do not really have any perspective on it. I am aware that because of whatever is happening in terms of the overall inventory for media there could be an impact on cost but we have not had any discussion internally on what the possible impact of that could be.

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

Tejas Shah Sir, our purchase of traded goods as part of cost of goods sold has increased 33% in this quarter as well like if you see that trend it has kept on increasing as a percentage of cost of goods sold. So have we started outsourcing some of the products which we are producing earlier in-house or these are completely new categories which we are catering through outsourced products?



*Pidilite Industries Limited
August 14, 2013*

- Sandeep Batra** No, there is no shift in terms of new categories that are being considered for as what you purchased for sale. They have been part of our portfolio even earlier. Whatever increase you see could be probably seasonal.
- Tejas Shah** And sir, just one question on your strategy going forward. If you see that most of the paint companies are now getting in to that zone of becoming a chemical company and they are overlapping certain categories where you are already present to begin with construction, chemical and as of now they have restricted themselves to waterproofing part of that. Now since we all seen a luxury of enough free cash flow being generated from the existing line of business, is there any scope or are we contemplating any new line of business or we have enough opportunities in the existing line of business to grow?
- Sandeep Batra** I think in products which are allied to our existing product range in the various business segments that we are currently present in our vote will drive growth in the future. So we are not looking at any entry in to a totally new line of business at this stage.
- Tejas Shah** But sir, if you see distribution network or dealer network of your products and paint products they are essentially hardware stores and we one of the major players playing out strategies then they are working on gaining more market share from hardware stores. So at one point there will be some conflict of interest at dealer level whether to shift as product completely to one guy or to balance it out amongst the various brands and various categories. So going forward are you seeing any threat to controlling that last man connectivity at dealer end because there seems to be some aggression from paint players and then unprecedented CAPEX we have now?
- Sandeep Batra** No, we are not seeing any such development in the market the way you described that there are being any fight for space at the dealer end.
- Tejas Shah** Not now sir, but if the gain traction in other product lines so?
- Sandeep Batra** No, we are not. We do not anticipate any threat.
- Tejas Shah** And sir, what would be our dealer network at the end of the year, consumer and bazaar?
- Sandeep Batra** We do not track that very actively because we do not sell direct to dealers our sale is to distribute who in turn then sell to dealers.
- Tejas Shah** And what would be the distributor number count?
- Sandeep Batra** The distributor number for all our consumer verticals will be around 4,000 distributors.
- Tejas Shah** And this includes even stationary products?



*Pidilite Industries Limited
August 14, 2013*

- Sandeep Batra** Yes everybody, all our consumer products.
- Tejas Shah** And sir, what percentage of our construction chemical would be broadly in waterproofing segment?
- Sandeep Batra** I would not be able to share that detail.
- Tejas Shah** And sir, would it be possible to share retail versus institutional business of construction chemicals?
- Sandeep Batra** Largely it is retail. Institutional is may be 20% to 25%. Bulk of it is retail.
- Tejas Shah** And sir last one bookkeeping question. What should be done with effective tax rate for the FY14?
- Sandeep Batra** I think the quarter rate would be fairly representative of what the rate for the year will be.
- Tejas Shah** So this also takes in to account one of our facilities which was expected to come out of tax zone?
- Sandeep Batra** No that last of our facility which was enjoying 100% tax exemption it came out last year. So there is no further change in that for this year.
- Moderator** Thank you. Our next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Agarwal** Sir, we have got a small segment which is others where we have started making some SEZ based chemicals in our unit which was earlier VAM, so now this segment has been growing where will it has shown a very high top line growth and it is EBIT positive. So where do you see this segment going forward from here?
- Sandeep Batra** It is very premature to extrapolate the number for the quarter. It is a very at this stage we are going market trials and marketing seeding on this product. We do have plans to make a much larger range of specialty acetates at the site in Mahad but at this moment it would be premature to comment upon how and what shape that will take.
- Amnish Agarwal** So can you give us some idea that what is the end use of these products, what are these products actually and what could be the potential market size?
- Sandeep Batra** No, I think they are not one product. The terms specialty acetate has a very broad brush category of products. We are looking at several niche segments in that category largely those which get imported in to India. So our focus would be on import substitution type of products. But that is at a very, very basic level. We have to thereafter go make a product, get a trialed with the customer once the customer accepts and gives an order so slowly scale it up. So for



*Pidilite Industries Limited
August 14, 2013*

me to give you a size of the market and other opportunities would be very premature at this stage. Suffice to say what we shared with in our annual report that is the plan going forward. May be in the subsequent quarters as these products gain better market acceptance we are able to get more customer orders for it may be I will be in a position to share some more details but not at the moment.

- Amnish Agarwal** Sir, at least you can say the end users are the direct consumers or?
- Sandeep Batra** No, these are all industrial products.
- Amnish Agarwal** B2B kind of?
- Sandeep Batra** Yeah, they are all B2B products. They are all used in a wide variety of industries. Some in I mean I am personally also not very at the moment aware of the specific end users.
- Amnish Agarwal** Sir, my second question is regarding that new acquisition I believe it was a loss making company which we have acquired in the slump sale?
- Sandeep Batra** No, it was not a loss making company. That is not correct. It was I do not know from where you got that impression?
- Amnish Agarwal** Because a slump sale was there so I thought it might not be making any money.
- Sandeep Batra** No, slump sale is a tax definition. It is a structuring of the thing. It is not because nothing to do with the profitability or otherwise of the company. It just means that we acquired the entire business as one business without buying the assets in their individual capacity.
- Amnish Agarwal** So it is a profitable company?
- Sandeep Batra** Yes.
- Amnish Agarwal** And as the top line is less than 1% so what could be you see your total is about that this company is having strong market share in Maharashtra in some of the regions they compete with other brands. But beyond that our sense is that Fevicol as such it is one of the best brands not only say in adhesives but overall in the consumer space so going by that whether you actually in the need of getting another brand?
- Sandeep Batra** Yes, I think Fevicol as the market leader cannot compete with all brands Pan-India which are priced at many different price points. So we always have the need to have other brands in the overall portfolio. This particular brand which is part of the business that we acquired has very good equity with the various intermediaries who are involved in the wood working business and therefore the company took the decision to buy this business.



*Pidilite Industries Limited
August 14, 2013*

- Amnish Agarwal** It means that may be in the if you look at say Fevicol which is a mother brand products of this company are there so they are prices a discount to Fevicol?
- Sandeep Batra** Yes, some kind of discount they would be pricing their products at.
- Amnish Agarwal** And you plan to position this product say for the use of the carpenter when they are making furnitures in their workshops, etc?
- Sandeep Batra** Details of how and where it will be positioned I am not here in a position to share on this call. But certainly we have plans of how to use this brand as past of our overall portfolio.
- Amnish Agarwal** Okay, but it will be definitely retained?
- Sandeep Batra** Yes, certainly.
- Amnish Agarwal** And sir, my final question is a housekeeping one. You have told the figures earlier also how much is the loss in the North America and South America in this quarter?
- Sandeep Batra** North America there is no loss, South America a loss at EBITDA level is about Rs. 16 million.
- Amnish Agarwal** South America Rs. 16 million and North America no loss?
- Sandeep Batra** No, North America is profit.
- Amnish Agarwal** Okay how much?
- Sandeep Batra** About I think Rs. 35 million at EBITDA level.
- Moderator** Thank you, sir. As there are no further questions I would request Mr. J. Radhakrishnan to add closing comments here.
- J Radhakrishnan** I would like to thank the management for the time for this conference call and all participants on this call. Sir, would you like to make any closing comments?
- Sandeep Batra** I just wanted to thank everybody on the call for their patient hearing and for their continued interest in Pidilite and have a good evening and a very Happy Independence Day to everybody. Thank you very much.
- Moderator** Thank you, sir. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.