



“Pidilite Industries Limited Q3 FY-13 Earnings
Conference Call”

January 30, 2013



**MANAGEMENT: SANDEEP BATRA -- DIRECTOR FINANCE, PIDILITE
INDUSTRIES**
MODERATORS: MR. RADHAKRISHNAN – ANALYST, IIFL CAPITAL LTD.



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Moderator

Ladies and Gentlemen, Good day and welcome to the 3Q FY13, Earning Conference Call of Pidilite Industries hosted by IIFL Capital Ltd. As a reminder for the duration of this conference all participant lines will be in the listen only mode. And there would be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Radhakrishnan from IIFL Capital Ltd. Thank you and over to you Sir.

Radhakrishnan

Thank you Terence. Good evening Ladies and Gentlemen. On behalf of IIFL Institution Equities, I would like to welcome you all for Q3 FY13 earnings conference call of Pidilite Industries. From the Management we have with us Mr. Sandeep Batra – Director Finance of Pidilite Industries. I would now like to hand over the floor to Mr. Batra for opening remarks. Over to you Sir.

Sandeep Batra

Thank you Mr. Radhakrishnan and a warm welcome to all the participants in the call and I also would like to thank them for their continued interest in Pidilite. I will first give a brief overview of the results for the Q3 and 9 months ended December, the same which were approved by the board at its meeting yesterday.

First I will cover the stand alone performance – The net sales of the company grew by 21.5% over the same period last year. This growth was driven by a 23.9% growth in sales of Consumer and Bazaar products. Sales of industrial products also improved and grew by 15%. Margins improved due to the impact of price increases taken earlier in the year and material cost sales as a percentage was lower by 200 basis points over same period last year. Other expenses were up by 35.2% largely due to planned higher advertising and sales promotions spent. Consequently EBITDA at Rs. 1677 million was higher by 25.4% over last year. The finance cost for the quarter was -24 million. Lower than Rs. 83 million versus last year due to reversal of 109 million on account of conversion of FCCBs into equity shares. This quarter October to December 104 bonds were converted into equities and as on the due date there was 205 bonds which were not tendered for conversion and the company had redeemed them in full on the due date. This write-back because of the conversion of bonds into equity also was visible in the foreign exchange difference line which shows an income of Rs. 89 million which has a benefit of Rs. 60 million write-back on account of the conversion of the bonds. Due to these one of events, the profit before tax is up by 63.7% and profit after tax is up by 67.2% as compared to last year. One were to look at how the individual segments have performed the Consumer and Bazaar segment grew by 23.9% in the quarter as compared to 20.5% achieved in the first half. This higher growth was due to the impact of a delayed Diwali in the current year versus Last year, particularly on paint product categories where the sales would have shifted from Q2 to Q3 and also the sales growth reflect the full impact of price increases taken earlier the year to offset input cost increases.



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For the Consumer and Bazaar segment PBIT as a percentage to sale for the quarter improved by 23 basis points over last year and it is 88 basis points sequentially over the last quarter. The improvement in gross margin because of lower material cost was partly offset by higher spend on advertising and sales promotion. Sales of industrial products which had been quite muted in the first 6 months grew by 15% led by a 49% growth in exports of these products. The PBIT to sales for this category though improved by 120 basis points over the second quarter was marginally lower than the same period last year. If I am able to look at the performance of our overseas subsidiaries, sales of all the international subsidiaries put together grew by 15.2% last year. Sales in North America grew by 14.3% largely led by a strong growth in the Student Art Material business namely Sargent Art, which grew by 29.3% in the quarter. The business in South America which had seen sales decline in the first half of the year, 13% in the first quarter and 3% in the second quarter, bounced back with the 12% growth in sales in this quarter. Other subsidiaries in totality grew by 23% with only Dubai reporting some lower sales growth. In fact Dubai had a decline in sales, where as the other 3 businesses Egypt, Bangladesh, and Thailand reported handsome sales growth. However margins measured in EBITDA, remained very much in line with same period last year where as the gains in all the other subsidiaries were off-set by higher loses in Brazil, where material cost increases have not been fully passed on by way of price increases. So therefore on a consolidated basis, sales are up 20.7% and EBITDA is up by 24.3%. EBIT before exceptional items is up by 26%. That's all I had to say by way of summary of the results. I am open for questions now.

- Moderator** Thank you so much Mr. Batra. Ladies and Gentlemen we will now begin with the question and answer session. We have our first question from the line of Abneesh Roy from Edelweiss securities. Please go ahead.
- Abneesh Roy** Consumer Bazaar business – 23.9% growth, if you could give us some indication of how much was the volume growth.
- Sandeep Batra** For the entire segment volume growth was about 16%, the remaining having come from price.
- Abneesh Roy** And what is driving this strong volume growth apart from the Diwali impact paint segments which you mentioned. Any brand specific trend you can just point out?
- Sandeep Batra** No, I don't think there is any specific brand which is done differently compared to the first – I mean the entire 9 month period, I think all the brands have responded to all the demand generation and all the growth initiatives that we have been doing, so it would not be fair to single out any specific brand.
- Abneesh Roy** And Sir, some of the paint companies are entering this and might get aggressive over the longer term in the construction chemicals business not in the Consumer Bazaar, so how do you see that kind of risk.



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- Sandeep Batra** I would not look at it like a risk, I would say that it's this may well help expand the market and make the market grow much faster than may be what one company making all the effort may result in.
- Abneesh Roy** Sir on the industrial products, 49% exports growth, wanted to understand without exports how much is the growth?
- Sandeep Batra** Without exports, this would be in single digits.
- Abneesh Roy** And with reform happening and rates cuts happening, you think - here the growth can improve over coming quarters, not next quarter but FY14?
- Sandeep Batra** Yeah. I think the growth certainly should come back. I mean we have seen lot of you know base correction which happened in the current year, so certainly we don't see the same kind of demand erosion happening as you go along, so certainly we are hoping that you know growth rates here will improve.
- Abneesh Roy** Sir my last question is on Dubai Market. When do you see recovery happening there and on the Brazil business what is the long term strategy its loss making? What is the strategy longer term there?
- Sandeep Batra** Dubai by itself is a very small part of our business. So while it's a subsidiary where we have presence and we have a manufacturing setup, since it is percentage wise may be 2 or 3% of the overall sales of the international subsidiaries, so relatively insignificant. We need to have a legal entity, a subsidiary, a presence there because we have other assets in that area. As far as the Brazil is concerned, as I mentioned earlier the sales growth concerns have been arrested. So we have seen sales growth coming back in this quarter. Now the challenge is to improve our margin because there is limited value that we will get by cutting cost. In terms of margin improvement, we have strengthened the management on the ground. Earlier in the last call I had referred about you know appointing a CEO for our business in Americas, so that gentleman is now on board and once he starts settling down and taking charge of the various businesses that we have, situation there will improve.
- Abneesh Roy** He will oversee North and South America both?
- Sandeep Batra** Yes.
- Abneesh Roy** South America 12% growth is it structural change or is it one off?
- Sandeep Batra** I think if you see the way the performance have been in the first quarter we had a sales decline of 12%, 2nd quarter, our sales decline came down to about 3% and this quarter we have seen sales



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growth. So it is all our culmination of all the various actions that we have been taking to improve the business.

Moderator Thank you. We have our next question from the line of Ankur Agarwal from Nomura. Please go ahead.

Ankur Agarwal Just wanted to understand, what percentage of the improvement we have seen in Q3 would you attribute to the festive season you have mentioned, there was an impact. So I understand the degree of seasonality in your business is much large if you can elaborate on that that would be very useful Sir.

Sandeep Batra I think the way to look at it will be that you know, our 9 months growth at the top line has been around 19%. So if each of our quarters had grown at 19%, the delta to that 19% will tell you the degree of variability because of seasonality.

Ankur Agarwal All right Sir. So on the margin are you seeing any uptake in activity, do you expect growth in Consumer and Bazaar to at least sustain at 19-20%, or you are seeing some improvement on the ground, in the domestic business.

Sandeep Batra No we are not seeing any distinct change in the overall economic framework that we operate in. That remains the same that it was about 3 months back. And from that point of view, growth rates in this quarter as I mentioned have that element of the seasonal and Diwali shift, so to that extent, there could be corrections, in the growth rates going forward and if you were to look at a longer term growth rate, that we have witnessed, those growth rates are more sustainable.

Ankur Agarwal Alright. Sir In terms of this 22%- 21.8% growth in the Consumer and Bazaar products, what percentage of that would come from pricing and what percentage would be volume?

Sandeep Batra Of the total 23.9% growth, about 16% would be volume remaining being price and mix.

Ankur Agarwal Alright. Any contribution from the hybrid coating business, that JV in Q3?

Sandeep Batra Not Yet.

Ankur Agarwal No contribution?

Sandeep Batra The business has not yet started operation. It would start operation in this quarter.

Ankur Agarwal And in the industrial business you highlighted that it's the growth uptake is driven to a large extend by exports. So in what sectors and countries have the exports picked up?

Sandeep Batra It has been across the various industrial products that we export and you know across the basket of countries. So there is no specific product or country to highlight.



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Ankur Agarwal But you were saying that ex of exports – the growth would be single digit?

Sandeep Batra Yes

Moderator Thank you. We have the next question from the line of HR Gala from Quest Investment Advisors. Please go ahead.

HR Gala Just a couple of things from my side, Sir what is the current status of the Synthetic Elastomer Project where we have so far spent Rs. 360 Crore?

Sandeep Batra Yeah, the current status is that final decision on the way forward on the project is yet to be taken by the board and as I had mentioned earlier, in my last conference call, some decision could emerge by end of this fiscal year and till that time of final decision is taken, further investments on the project has been kept on hold.

HR Gala Is it purely from the commercial aspect, or is it due to some technical issues that we are encountering?

Sandeep Batra So I don't think there are any issues per say with reference to the project. I think it is the review of the overall project that the board needs to take a call on.

HR Gala So what I was asking that vis-à-vis the input cost and the price at which you can sell the product in different markets, whether that party is not in favor of your pumping in more money?

Sandeep Batra No it is, as I mentioned to you. There is no specific one issue which is causing the decision not to be taken, it is looking at the project in its entirety, the board needs to take and examine various options associated with the project and then come to a final decision.

HR Gala What will be your normal capital expenditure this year?

Sandeep Batra Our normal capital expenditure will be between 125 and 150 crores.

HR Gala So even in this year also, we will be spending that much?

Sandeep Batra Yes, of that order.

HR Gala How far we have spent so far?

Sandeep Batra I would not be able to disclose that number.

HR Gala That's fine and Sir one question, as far as our average tax rate is concerned, at a consolidated level, it's around 26%, so any specific tax advantage is that we are – tax breaks are we getting?



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- Sandeep Batra** We have a few units in Himachal Pradesh, which enjoy the tax benefits available there, other than that yes we have no other.
- HR Gala** We have not. But you expect this tax rate to continue for how long?
- Sandeep Batra** At this level, it will continue for may be an year or two and then the units in Himachal will complete the 10 year tax holiday and then the tax rate may go up.
- HR Gala** Thank you very much and Wish you all the best.
- Moderator** Our next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera** Sir for the 9 month what would be the volume growth you mentioned that same as 16 for the quarter, for the 9 months how much will it be?
- Sandeep Batra** Month will be about, I think about at a total level it will be around 12%.
- Sachin Kasera** This is only for Consumer and Bazaar right?
- Sandeep Batra** Total.
- Sachin Kasera** And Consumer and Bazaar, for 9 months.
- Sandeep Batra** It should be about percentage points higher. About 13%
- Sachin Kasera** Secondly you Sir mentioned that, the gross margins improved by around 200 basis points. Could you throw some light on that? And you also mentioned that the other expenditure went up because of higher AD spend, so was it a conscious decision to reinvest the higher profits on this one or function of slow down in the market or higher competitive intensity.
- Sandeep Batra** The margin expansion was in line with you know whatever price increases we would have taken to pass on whatever cost inflation that we would have undergone and so the raw material prices has been largely stable compared to Q2/Q3. So it is not that, the margin expansion is because of raw material cost going down very significantly. They have gone down, but not entirely causing the expansion in margin. It is largely the full effect of all the price increases that we would have taken and the decision to spend more on advertising and sales promotion is not really anything to do with one's quarter results. It's not that we will take a decision on advertising and sales promotion depending on margins. Our decision on advertising and sales promotion is more long term, it's more driven by the decision of doing the right thing for each particular brand and very much in line with what we would have planned out at the beginning of the year. It is only a coincidence that in this particular quarter, that higher spend has been off-set by improved margins.



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- Sachin Kasera** And Sir, could you throw some light on how the various segment in the Consumer Bazaar, chemical, fabric, how they have done?
- Sandeep Batra** I think that I would not be able to share at this stage, but suffice to say that you know, all the segments have done well in this quarter and as I referred to earlier, one of the reasons why growth has expanded in this quarter is, shift of some of the paint product sales from second quarter to third quarter.
- Sachin Kasera** Just one last question Sir. Could you give us some data on the debt and the cash equivalent as on 31st December?
- Sandeep Batra** The gross debt after having repaid all our FCCBs is around 100 Crores as on 31st of December. And we would have cash and cash equivalent of about 400 crores on that date, so net debt wise; we are positive by 300 crores.
- Sachin Kasera** This is for standalone or consolidated.
- Sandeep Batra** Standalone.
- Sachin Kasera** Standalone. Consol would be similar or
- Sandeep Batra** Consol may be a bit lower because we have some debt in the books in the subsidiaries, so net debt wise we may be about 50 crores lower.
- Moderator** Our next question is from the line of Rakhsit Ranjan from Ambit Capital. Please go ahead.
- Rakhsit Ranjan** Just wanted to get some sense on volume growth for the Fevicol brand, if I remember correctly, I think the volume growth had dropped down from 12-13 odd percent year and a half go to around 8% till the second quarter of FY13. How has it been in the Q3 of FY13?
- Sandeep Batra** We don't share specific brand wise growth details here. I am sorry I will not be able to answer that question.
- Moderator** Thank you. We have the next question from the line of Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit** One is Sir, just wanted to get an understanding on the international business. If you could just give me the total sales in EBIT for quarter before exception, so that will be helpful Sir and second is Sir, what would be the VAM price for us at this point of time? On an Average?
- Sandeep Batra** The total sales of the international subsidiaries is about 99 crores and EBIT before exception is Rs. 1 million.



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- Amit Purohit** And this is as against last year?
- Sandeep Batra** Last year was 886 crore and EBITDA was positive 4 million and VAM prices around \$ 1000
- Amit Purohit** One is on the construction chemical side, safely to assume that it would be upwards of 30% growth this quarter?
- Sandeep Batra** We don't say that. I won't be able to comment on that.
- Amit Purohit** And lastly on the capital employed, I was just looking at the numbers, this has gone up significantly in this quarter both YOY and sequentially, so just wanted your thoughts on that.
- Sandeep Batra** So capital employed has gone up because debt has gone down.
- Amit Purohit** No just the unallocated
- Sandeep Batra** Yeah that's what I am saying. The unallocated capital employed has gone up because we have repayed the debt. So our own capital has become higher because we have repaid borrowed capital and investments in liquid in cash surplus investments are much higher this quarter. It is showing in increasing in the unallocated Capital Income.
- Moderator** Thank you. We have our question from the line of Paresh Jain from Max life. Please go a head.
- Paresh Jain** Just wanted to understand this 125 to 150 crore CAPEX, how would you break that down between maintenance and expansion CAPEX?
- Sandeep Batra** Very difficult to break it down, it's a mix of these 2, some of it is sustenance and some of it is during debottlenecking and building some capacity, so difficult to give you a breakup of that.
- Paresh Jain** Because what I'm trying to understand that in a couple of quarters back in the normal CAPEX that used to be closer towards 100 crores, 25 to 50 crores jump is largely expansionary in nature or what is it?
- Sandeep Batra** It would be to set up new capacity, our CAPEX has been in that region 125 to 150 crores and it is a mix of sustenance as well as capacity expansion.
- Moderator** Thank you. We have the next question from the line of Subramanium from Sundaram Mutual Fund. Please go ahead.
- Subramanium** My query was on the demand scenario overall you were referring to paints demand being stronger in the third quarter compared to the second quarter which helped Consumer Bazaar, could you elaborate a bit on this and also on what trends that you are seeing into the fourth quarter, how is the overall demand like?



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- Sandeep Batra** I was not talking about any demand of paint products being higher or lower, what I was saying was because of Diwali being later in this year, in middle of November versus last year, the sales of some of our paint product may have shifted from second quarter to the third quarter, so therefore our growth rate in the second quarter a bit lower and the growth rates in third-quarter correspondingly higher that is the point that I was making. And as far as comment on what the fourth quarter looks like as a company we do not comment on outlook on the future, so I'll refrain from answering that question.
- Moderator** Thank you. We have the next question from the line of Saurabh Pant from SBI Mutual Fund. Please go ahead.
- Saurabh Pant** What has been the growth of exports in the industrial chemicals?
- Sandeep Batra** 49%.
- Saurabh Pant** Is this 70% of the industrial chemical revenue because I think that is what you said last con call in the last quarter or is it export related businesses what you mean?
- Sandeep Batra** No, direct export of industrial product is about 25% of the revenue of that segment.
- Saurabh Pant** So that means about a quarter of the growth, it is about close to 10 to 12% has come from export itself, that means that the domestic is very weak?
- Sandeep Batra** As I mention it was in a single digit.
- Saurabh Pant** But then the pigment sales would have been strong for you, given the fact that you're talking about paint demand shifting to...?
- Sandeep Batra** That would depend upon when the paint companies want to buy their pigments whether they want to buy it in Q2 or Q3, so that specifically I will not be able to comment.
- Saurabh Pant** But you have not seen any pickup in the pigments sales?
- Sandeep Batra** I am not very clear when you say pick up. We have seen growth in the domestic part of the business lower than our historical trends.
- Saurabh Pant** Second question was this cash figure that you give 400 crores this is after paying the redemption amount of FCCBs, right?
- Sandeep Batra** That is correct.
- Saurabh Pant** And this is entirely funded through the cash?



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Sandeep Batra Yes.

Saurabh Pant And now you would have paid about USD10.5 million of FCCB was converted this quarter, right?

Sandeep Batra Yes. So 20.5 million was the face value and you add to that the YTM, so about close to USD30 million was repaid.

Saurabh Pant And this CAPEX, this number 125 to 150 crores, this is for FY14?

Sandeep Batra FY13, current year.

Saurabh Pant Can you share this tangible asset value for the Elastomer project?

Sandeep Batra We have disclosed it and it is about 360 crores is the total that we have spent.

Saurabh Pant And of that the assets would be how much?

Sandeep Batra Asset meaning, I do not understand the word?

Saurabh Pant There is obviously capitalization of interest sitting there, so net of that how much would be...?

Sandeep Batra I would not remember the number of the cuff.

Saurabh Pant What I'm saying is that the assets would be depreciating?

Sandeep Batra No, assets have not been put to use so how will they depreciate.

Saurabh Pant But then one part is the technology, the second part is hard assets but you just kind of keeping them in store I'm sure there will be some kind of wear and tear in those assets?

Sandeep Batra No, we are keeping them in working conditions all the assets that we had bought from the French company which are available in dismantled state. We are ensuring that the economic value of the assets is protected.

Saurabh Pant You cannot share the mark-to-market value or something like that in terms of assets I do not know not mark to market but some sense of the assets if you're able to select today what kind of get out of it?

Sandeep Batra We do not know that is not the exercise that we have done as to what will get if you were to sell it, to me it is a hypothetical question.



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- Moderator** We have our next question from the line of Ranjit Sirumala from B&K Securities. Please go ahead.
- Ranjit Sirumala** When you said that the paints products of your company the demand was a better what exactly do you mean by those products?
- Sandeep Batra** We have some products, we have some distemper that we sell, then we have some other pain related products are both wood finish as were as tinting products, so all these are what we classify as paint products.
- Ranjit Sirumala** The emulsions which you said they come under CMB or it is under industrial products?
- Sandeep Batra** Which emulsions?
- Ranjit Sirumala** The paints which is used for the water-based paints?
- Sandeep Batra** The industrial products.
- Ranjit Sirumala** And how was the demand for that particular paint?
- Sandeep Batra** It is part of the overall industrial products segment we do not share sub segment wise numbers, so I will not be able to respond to this question.
- Moderator** Thank you. We have the next question from the line of Prakash Kapadia from I Alpha Enterprises. Please go ahead.
- Prakash Kapadia** I wanted to get a sense of I know that he would not be able to disclose the growth within adhesives and sealants construction chemicals but some qualitative sense, on what has happened in the nine months?
- Sandeep Batra** I think the growth rates have been in line with the way these segments have been growing in the past. So there is nothing which is different or exceptional which is happened in this quarter, so beyond that I do not think I would able to share.
- Prakash Kapadia** What is the good bench park to sort of project the Consumer Bazaar product business because that has 7% cut of GDP or a 7 to 8% kind of GDP we were growing at 20% we continue to grow at 20% at 5.5 or 6% GDP, so just trying to understand what are the co-drivers for the Consumer Bazaar products business line?
- Sandeep Batra** First of all there is no correlation between the GDP growth and the growth of our products.
- Prakash Kapadia** What could be a good proxy to use if we were sort of.....



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- Sandeep Batra** Good proxy would be historical performance this is what we would internally benchmark ourselves against rather than any external numbers like GDP. And the drivers for growth for our product category are all the demand generation initiatives and activities that we are doing on ground to promote the growth and usage of our products.
- Prakash Kapadia** And the 49% growth that we saw in the exports of industrial products, was that more of sort of channel restocking and will it sustain in the subsequent quarters, any thought on that?
- Sandeep Batra** No, real thought, I think we will have to wait and watch as to how the coming quarters shape up and is that a reflection of some underlying change that has happened in the market or it is bit of a one-off I think the next quarter we will answer this question.
- Prakash Kapadia** And if I look at the gross cash flows that we sort of annually generate we will do about 450 to 500 odd crores we have a 30% kind of payout which takes away about 150 crores we have a 150 crores kind of CAPEX, so any thoughts on this sort of incremental 200 crores that we are generating every year in terms of the applications for that?
- Sandeep Batra** I think that is something that we will have to address because this problem of having surplus cash on the balance sheet is this year phenomena, so I think the board will deviate and deliberate this and find out and come up with an answer to best deploy this cash. I certainly will not be able to comment on what we will do with it but certainly it is a call that the board will have to take.
- Moderator** Thank you. We have the next question from the line of Aditi Murkute from Iden Advisors. Please go ahead.
- Aditi Murkute** I wanted to ask about the research and development thing, there is a lot of turnover actually it is quite consistent over the few years, is it going to be quite consistently held like that anyway future or looking for good development and research?
- Sandeep Batra** I will not be able to comment on future sales and future outlook.
- Aditi Murkute** You told the values about the Consumer Bazaar and the Industrial Bazaar now among these two anymore new innovations we should look forward for?
- Sandeep Batra** There would be several new product and innovation. They could be innovations in the existing product itself, there could be innovation in packaging, there could be totally new product coming out but our approach has been very largely to be operating in niche segments, so you will not see one product from our portfolio becoming a mega brand overnight, so they will slowly gained traction in their identified market position. So we would have a full portfolio of products that would be at various stages of maturity.



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- Moderator** Thank you. We have the next question from the line of Gagan Thareja from Comcast. Please go ahead.
- Gagan Thareja** The VAM prices been sort of they have come off and now they are stabilized, so is there since price increases is added response to our moment in raw material prices, so is there now a potential for a rollback of price increases also somewhere along the line?
- Sandeep Batra** No, do not think that is a situation that we're looking at currently.
- Gagan Thareja** And the other part related to this increase that when you say you have increased prices in response to raw material is it that the per Kg absolute increase in raw material prices actually passed on or on a prorata percentage basis also if you can increase prices on the sales?
- Sandeep Batra** I think it is a mix, it depend on the competitive intensity, so you know if in some cases it is absolute only passing on the cost increase at if that is what the market can take. It is not so much driven by our issues, it is driven by what the market and the customer can take.
- Gagan Thareja** Of late there has been news that HB Fuller has put up a facility in Pune, you've got **Bass (Inaudible) 40.35** putting up a urethane plant in India, so do you feel that somewhere along the line the competitive intensity from some of these MNCs which are in part in **(Inaudible) 40.40** or HB Fuller or Huntsman in this business because of the increased competitive intensity, are we going to see a market scenario that could be remarkably different from what you generally seeing in the past or is it too far away to even bother?
- Sandeep Batra** I think, competitive intensity is certainly something that we actively watch and India is an attractive destination for all global adhesive players so it is no surprise that all of them are slowly looking at setting up manufacturing facilities or have in fact set up manufacturing facilities in India but one thing to keep in mind is that most of these global players are largely present in the industrial adhesive area, not many of them are present in the Consumer and Bazaar adhesive that is the strong point of the daylight Pidilite. Yes, we do see competition in the industrial part of the business but we are geared to take that competition on and in the Consumer and Bazaar business again competitive intensity is certainly strong but there is no real large national branded player and that therefore is a competitive advantage that we enjoy.
- Gagan Thareja** Apart from the sales channels at a technical level, is there a big difference between industrial adhesives or the ones that you are using here, is the commercial adhesive technically, I presume less complicated than the industrial adhesive so if that is the case why would people not want to expand the rate at the end of the day putting up channel presence would have to be on both the routs so if the returns are as favorable as they are why would they were not want to, I'm just sort of trying to hypothesis this out?



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- Sandeep Batra** What the only element in this I think that you may not be considering is the relevance and the power of the brand along with the distribution which probably a company which may have the technology but certainly would not have the Consumer brand and the distribution. So those could be factors that may be deterring them from going down this track but again as you said it is bit of a hypothetical question and I'm certainly not the best person to answer on behalf of these multinationals as to why they are not looking at getting into the retail end of the business in India.
- Moderator** Thank you. We have the next question from the line of Gautam Chhaochharia from UBS. Please go ahead.
- Gautam Chhaochharia** On the competition from the paint's part, what was the comment that, can you also comment as to how that can evolve over the medium-term?
- Sandeep Batra** I think, we have also read and we have seen activity on ground by a few paint companies in the area of construction chemicals, particularly waterproofing related products. So my hypothesis of belief is that the entry of these players will help to expand the market and therefore there would be good for the industry and good for the Consumer so these entries will help expand them.
- Gautam Chhaochharia** But till now whatever entry strategy which you have seen from these guys has been not descriptive, it is more about just creating a presence?
- Sandeep Batra** They would have, they have their own plans I certainly can't comment on the details of those plans but on a long-term basis and on a pure macro basis this competition would help to expand the market faster.
- Gautam Chhaochharia** Obviously it doesn't seem to appear to as impacted your growth or margins. The second issue going from there is that do you see them expanding beyond the waterproofing parts specifically stuff like say a Fevi Quick or even adhesives longer term?
- Sandeep Batra** Not at this stage, I don't think I have any news at this stage.
- Moderator** Thank you. We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera** Any update in terms of any distribution expansion that you have done in the current year?
- Sandeep Batra** No, nothing specific to share. There would be distribution expansion as part of the normal business but nothing which is out of the ordinary.



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- Sachin Kasera** And just to reconfirm the information that the CAPEX for FY14 is also likely to be in the range of 125 to 140 crores?
- Sandeep Batra** It would depend, some years could be less than 150, some years it would be more depending on the timing for CAPEX in some year but yes, at this stage I would say, it would be average of 150 crores.
- Sachin Kasera** Because in some of the previous calls may have been looking more and hearing more of the numbers closer to around 100 crores?
- Sandeep Batra** No, 100 crores would be CAPEX that we would have spent couple of years back. Our current rate is more around 150 crores.
- Moderator** We have our next question from the line of HR Gala, a follow-up question from Quest Investment and Advisors. Please go ahead.
- HR Gala** The VAM price which you said \$1000, now as far as our requirement of VAM is concerned are the importing most of the VAM and what is happening to the VAM plant which we had?
- Sandeep Batra** All our VAM requirement is imported, that VAM plant at Pidilite has is not been running to make VAM. We are making small quantities of some special tea acetates in that plant.
- HR Gala** So that plant is not idle?
- Sandeep Batra** Now it is not idle.
- HR Gala** Can these acetate products are required for our own use or?
- Sandeep Batra** For third-party use.
- HR Gala** For third use.
- Moderator** Thank you. We had the next question from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Agarwal** If we look at our segmental performance in the unallocated expense during Q3 they have actually gone down, so any particular reason or a particular trend which we can gauge from there?
- Sandeep Batra** No their entire foreign-exchange expense/income that you see is clubbed as part of unallocated, so if that has showing a credit as well as the interest so both these elements are actually showing the benefit of the conversion of the FCCB Bonds so because of that both the unallocated expenditure has come down.



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Amnish Agarwal And the interest burden which we are showing as a negative, your 24 million how much could be the impact of your FCCB?

Sandeep Batra What we have given by way of note it is 1099 lakhs.

Amnish Agarwal So nearly 11 crores is the credit which you have got otherwise the interest burden would have been on 10.5 crores?

Sandeep Batra Yes.

Amnish Agarwal Regarding the Consumer and Bazaar products do you see a possibility that with the interest rates coming down we could see significant pickup happening more so on the construction chemicals side?

Sandeep Batra I don't think the 25 basis points cut in interest rates will dramatically change the demand situation for any of the products.

Moderator Thank you. We have the next question from the line of P Venkatesh from Corporate Database. Please go ahead.

P Venkatesh Just want to understand what would be your current employee strength?

Sandeep Batra About 4200.

P Venkatesh This is on standalone?

Sandeep Batra Yes, standalone.

P Venkatesh And on consolidate it will be?

Sandeep Batra About 4700.

Moderator Thank you. We have the next question from the line of Ankur Agarwal from Nomura. Please go ahead.

Ankur Agarwal Given our very strong balance sheet position, how are we looking at dividend payout, are we looking to increase that going forward? What is the sort of discussion you have on dividend payout internally, give us some qualitative flavor on that?

Sandeep Batra We not had any discussions on this subject, I think it is something that the board will consider closer to the time when dividend decision has to be taken, so at the moment there is no discussion or thought on the subject.



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- Moderator** We have our next question is a follow-up question from the line of Gagan Thareja from Comcast. Please go ahead.
- Gagan Thareja** Again a question related to the demand side and if you look at the trend of the Consumer goods companies in India if we could take the FMCG or Brown goods, in the recent past there was a phase when all of them increased prices and pushed it as far as the market could take and then you saw the volume growth sort of coming off, the most recent case is obviously that of HUL. So what I'm trying to sort of understand is that since your end-user base is largely furniture manufacturing, packaging and that sort of area, you pushed prices now depending upon the appetite in various segments, how much price increased can be absorbed. But are you also seeing an underlying trend of sort of volume offtake coming off in the packaging of the furniture segment as we probably seen across the board for most the Consumer companies reporting in Q3?
- Sandeep Batra** No, we are not seeing any negative impact on the price increases as far as volume offtake is concerned. We are not seeing any impact like that you described.
- Moderator** It seems that there are no questions at this time, I would now like to hand the conference over to Mr. Radhakrishnan from IIFL Capital Ltd for closing comments.
- Radhakrishnan** We thank Mr. Sandeep Batra for this call and all the participants, have a good day.
- Moderator** Thank you so much. Would Mr. Batra like to add a few closing comments to the conference?
- Sandeep Batra** Thank you very much for everybody for their interest in Pidilite and I wish everybody a good evening.
- Moderator** Thank you so much. On behalf of IIFL Capital Ltd that concludes this conference, thank you for joining us and you may now disconnect your lines. Thank you.