



“Pidilite Industries Earnings Conference Call”

July 27, 2011



**MODERATORS: MR. J. RADHAKRISHNAN
MR. SANDEEP BATRA**



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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY'12 Results Conference Call of Pidilite Industries hosted by IIFL Capital Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. J. Radhakrishnan. Thank you and over to you Sir.

J. Radhakrishnan: Thank you Marina. Good morning ladies and gentlemen. On behalf of IIFL Institutional Equities, I would like to welcome you all for the Q1 FY'12 earnings call of Pidilite Industries. From the management we have with us Mr. Sandeep Batra, Director Finance of Pidilite Industries. I would now like to hand over the floor to Mr. Batra for his opening remarks. Over to you Sir.

Sandeep Batra: Thank you Mr. Radhakrishnan and good morning to everybody. I thank you for your interest in Pidilite and for joining the conference call. Let me read out some of the performance highlights for the results for the first quarter of FY' 12.

On the standalone company net sales grew by 21.8% over the same quarter last year. Material cost as a percentage of sales has gone up by 365-basis point over the same period last year and compared to the immediately preceding quarter, which is the Q4 for the last FY material cost are higher, by 140-basis points. Raw material prices on an average have been higher by about 20% over the last year.

Part of this impact has been offset by increases in selling prices, some which were affected last year, and several price increases taken in the current quarter; however, as most of the selling price increases happened towards the end of the first quarter the benefit of these increases will be reflected in the coming months. Other cost mainly manpower costs were higher because of the annual salary revision as well as higher power and fuel cost has impacted the margin.

Consequently the EBIT margin- earnings before interest and taxes, before foreign exchange differences was at 19.2% per sale because of the reasons as explained above. Foreign exchange loss for the quarter was 1.8 million as compared to 10.4 million in the same period last year. Interest cost at 39.8 million was substantially lower than last year because of two reasons; one we had repurchased nonconvertible debentures of Rs.900 million last year. The interest on which is not there in the current quarter, as well as in the current



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quarter about nine foreign currency convertible bonds aggregating US \$0.9 million has been converted into equity shares and the interest that we would have provided on account of the YTM on these bonds has been written back in this current quarter.

Profit before tax and before exceptional items at Rs.1,427 million is 4.3% higher than the same period last year; however because of the completion of the first five year tax holiday period for the fourth unit in Himachal Pradesh, the effective tax rate has gone up to 24.5% as a result the profit after tax for the quarter is Rs.1,077 million as compared to Rs.1,067 million in the same period last year.

Looking at how the performance has been off the overseas subsidiaries. The overall performance, the total EBITDA for our overseas subsidiaries before exceptional items was 35 million in the quarter as compared to 20 million in the same period last year. All the subsidiaries have reported better results than the same period last year with exception of the subsidiary in Brazil. The performance in the South American subsidiary in constant currency terms- sales were up by only 4% and margins were impacted because of increased input cost which could not be passed on due to competitive pressures.

The subsidiary in North America grew by 4.3% in this quarter and the EBITDA increased by 50% over the same period last year. As far as Middle East and Africa operations are concerned sales were up by 86% over the same period last year with reduced cash losses in both UAE and in Egypt. The business in South East Asia- sales grew by 19% in the operations in Thailand and there was an improvement in operating profit in the business in Thailand. In both Thailand as well as in Bangladesh we are looking at capacity expansion to take care of the growing demand in this country.

Therefore on a consolidated basis sales at 8,451 million are up 20.9% over the same period; however, because of increases in input cost EBIT at 1,451 million is only 1% higher than the same period last year. That is all I had to say on the results for the quarter.

I am open to questions now.

Moderator:

Thank you very much. The first question is from Vaishali Jajoo from Aegon Religare. Please go ahead.

Vaishali Jajoo:

This is regarding your volume and value growth if you can just classify in terms of consumers and industrial?



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Sandeep Batra: Our overall growth in consumer and product was 22.8% of which about 17% would be volume led and the remaining would be led by price, whereas in the case of industrial product overall growth was a bit lower at 18.4% where the volume growth would be around 8%-9% and the balance would be price increases.

Vaishali Jajoo: Could you also give us some indication on the raw material cost pressure and how much it is passed on and how much price hike would be required to fully pass on those raw material cost pressure?

Sandeep Batra: It is very difficult to give point in time answer. As I mentioned we had and I mentioned it in my last call also that there were significant increases in input cost which had happened since the beginning of this year. We continuously review our pricing with a view to protect our margins and based on a certain estimate of input cost we would have implemented several price increases. Now the result is obviously there for us to see that margins have been impacted because of higher cost increases not passed on by the way of price corrections, some of that will get offset in this quarter in July and September because the full effect of the price increase would be visible there; however the raw material inflation is something that all needs to work for to see what further pricing action may be required.

Vaishali Jajoo: How you are seeing the trend in raw material cost, it is still continuing on the upward direction or it is stabilizing at those limits?

Sandeep Batra: No, I think in some select commodities we have easing of the raw material pressure, some of these commodities have come off the highs that they have reached, so we do see some amount of tapering of that pressure but it will be seen whether it is a temporary easing off or is it a lower trend which points towards easing of commodity inflation.

Vaishali Jajoo: Second question is on Elastomer if you can just provide some highlight on what is the status over there and how much investments we have done on that?

Sandeep Batra: I think the total investment that we have done on the Elastomer project so far is 326 Crores and as I had mentioned in my last call we are looking to complete the project in the first half of next year, so beyond that at the moment I do not have any update to share.

Vaishali Jajoo: Thank you that is from my side.

Moderator: The next question is from Aniruddha Joshi from Anand Rathi. Please go ahead.



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Aniruddha Joshi: What is the trend in the VAM prices, let us take average pricing in this quarter or same average pricing on a YOY basis, have there been substantial increase on the price hikes, we have taken one around price hike in the third quarter or last year September month, so post that have we increased the prices again?

Sandeep Batra: As far as VAM is concerned, the average increase for this quarter over the same period last year was about 20%, effective cost to us is 20% higher, it is not a one price that we buy for the entire quarter so there are bookings that we do at different prices, what I gave you was the average price, if you look at the current price of VAM it has certainly come of it highs and current prices are lower than the highest price at which we would have purchase VAM. I am not sure whether I shared it in the last call, but VAM prices had touched a high of about \$1,400 a tonne in the first quarter as compared to about \$1,000 in December. They have since then come off that \$1,400 level and they are ruling at \$1,300 level. As far as price increases are concerned we would have taken some pricing action in the first quarter of last year for say the main product Fevicol and we are implemented two price increases in this quarter, one happened in May, which was I would say a relatively modest price increase and then we took another price increase in July which has been slightly more substantial at 5%-6% price increase we have taken.

Aniruddha Joshi: July price impact will be seen?

Sandeep Batra: In the second quarter.

Aniruddha Joshi: What was the quantum of May price hike?

Sandeep Batra: May was nominal; I think it was 1%-1.5%.

Aniruddha Joshi: Just on this small SKUs can you just indicate the sales, which we draw from products price at Rs.10 and below?

Sandeep Batra: I do not have that number to share with you at this stage.

Aniruddha Joshi: Lastly on the competition, we have seen at least in the consumer space 3M India has launched some of its product in India, so do you see competitive pressure in the RAC segment increasing?

Sandeep Batra: I do not want to comment on any specific competition, but certainly we are aware of what other competing companies are doing and we are alive to whatever action needs to be taken



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to protect our market position, but I would not like to react to any specific thing by any competition.

Aniruddha Joshi: In this quarter we have also seen the other expenditure has gone up, is it due to the increase in ad spent?

Sandeep Batra: Ad spent has been higher, because last year first quarter our ad spent was still a bit on the lower side I would say, so ad spent was more around 3% of sales last year, it has gone closer to about 4% of sales in this quarter, but that will be one reason, other reason of course is increases in cost like power and fuel has impacted, both these power electricity tariffs or prices of oil related products like furnace oil and gas, they have increased significantly in the current quarter.

Aniruddha Joshi: Thank you.

Moderator: The next question is from Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Just wanted to clarify one thing. You had mentioned that currently VAM has been trading at sub 1,300 levels a tonne, so just with your recent price increases will you be able to get back to the normalized EBITDA margins, taking into an assumption that on the VAM prices trade at these levels?

Sandeep Batra: First of all we will have to define what in your view is normalized EBITDA margin, but again it is very difficult to give because what you ask has got a time element to it, so it is very difficult to say when we will be able to get back to normal kind of margins. See the whole cost inflation, picture is still dynamic, it is still very fluid, as I mentioned we have taken price increases in this quarter now we will have to wait and watch as to are they adequate to offset all the cost increases or some more pricing action is required, but it is suffice to say that we are very pleased of the impact of these cost increases on our margins and it is something that we review on a very regular basis, yes July, August and September as I said we have taken these price increase, and the raw material regime is also looking that it has peaked and some input cost have come down compared to high, but then we are carrying finished goods inventory as well as raw material inventory, so the full effect of all the accidents on the pricing and on the cost front generally takes between one and two quarters to be visible.

Kunal Bhatia: At least on a quarter-on-quarter basis if you could give a sense on what improvement can we see on margins with this increase?



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- Sandeep Batra:** As a company we do not like to give any forward-looking guidance, I have explained to you that the price increase that we have taken will take full effect in July, August, and September. As far as the cost is concerned it is a basket of products, few of them have tapered down but we have issues of, we would have inventory with us, so I think over the next two quarters we would see improvement in margins.
- Kunal Bhatia:** That was very helpful.
- Moderator:** The next question is from Kaushik Poddar from KB Capital Markets. Please go ahead.
- Kaushik Poddar:** Can you talk a bit about the new products? For example how much is the turnover coming from the products you have launched in the last two years?
- Sandeep Batra:** We do not specifically track or report on sales at a product level, we do not close the sales at a product category level, but suffice to say that product that you have introduced like Fevicol Marine continues to gain acceptance in the marketplace. We had introduced Elastomeric-waterproofing product called New Coat. That is again gaining good acceptance in the marketplace. I would say that the performance of our new products has been fairly satisfactory.
- Kaushik Poddar:** I just missed you have mentioned how much is the volume growth last quarter vis-à-vis the previous quarter last year?
- Sandeep Batra:** Overall volume growth would have been about 16%.
- Kaushik Poddar:** Thank you.
- Moderator:** The next question is from Amnish Agarwal from Motilal Oswal Securities Limited. Please go ahead.
- Amnish Agarwal:** My first question is on the demand scenario, because you are indicating that in this quarter in consumer we had a 16% to 17% volume growth which means around 6%-7% price increase and then we have taken another 5% to 6% in July, so in this kind a scenario when the prices will be up say in double-digits what kind of demand scenario are you witnessing currently and what is your outlook say in the coming couple of quarter at least?
- Sandeep Batra:** See I think the demand for our product is not predominantly impacted with the pricing action that we take, but it is to a large extent impacted by the overall economic situation in the country and if the overall GDP growth in the country is looking likely to be lower than

last year because of inflation, interest rate increases, etc., I think it will have some effect on our volume growth also, exactly what the scenario will be in the second or the third quarter it would be bit of a guess work to say anything on that.

Amnish Agarwal: My second question is regarding the Elastomer project, my sense was that earlier we were planning to complete it by the end of FY' 12 and is there some delay in that because you are indicating first half of next year?

Sandeep Batra: No I think the last communication that I would have given would have been that it would be the first half of next year, so from that there is no delay in that sense.

Amnish Agarwal: Okay so it will be the same at first half of FY' 13?

Sandeep Batra: That is correct.

Amnish Agarwal: If you look at finally our gross margins we had 49% in FY' 10 which came down to 47.6 and now in this quarter we have 44.7, so structurally when you do pricing of your products and when you look at the overall completed scenario, where do you think the gross margins, there is something called you can see the range which the company feels is the optimum level, so where do you think the optimum level lies is it say around 47%, 48% or somewhere close to 49%?

Sandeep Batra: Gross margin percentage has several elements in it, one is of course product mix, the other is the increases that are there at cost below the gross margin level, so it is very difficult to give you a target on gross margin specifically, but yes if you were to look at what is the EBIT or EBITDA target or the EBITDA number that the company would like to see certainly we would like to be in the same range as our last couple of year's performance as far as EBITDA is concerned, that is the kind of range that we would like to see the company performance at.

Amnish Agarwal: Thanks a lot.

Moderator: The next question is from Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: I have two questions, you mentioned about the repayment of some NCDs, I believe still have some balance may be around 40-50 Crores of NCDs left, so would you be repaying that in the current year that is my first question. The second question is, what is the CapEx plan for this year going forward?



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- Sandeep Batra:** We have 60 Crores of NCDs outstanding and they are due for repayment in December 2013, so we have time to repay them. As far as our CapEx plans are concerned I think if you keep these Elastomer project aside overall for the ongoing business CapEx would be around 100 odd Crores in this year.
- Kaushal Shah:** Thank you so much.
- Moderator:** We have a follow-up question from Vaishali Jajoo from Aegon Religare. Please go ahead.
- Vaishali Jajoo:** There is one question again on the industrial part of your business, looking at the higher interest rate and in any ways the real estates are slowing down will it have an impact on the volumes of industrial part of business and some part of consumers as well?
- Sandeep Batra:** See industrial part of our business is industrial adhesive, which is it linked to several end user industry growth for example if it is packaging or if it is footwear or it is tobacco, so to the extent that the overall economic growth in India gets impacted by various macro economic factors, it will have an impact on our industrial business also.
- Vaishali Jajoo:** I am talking more about the real estate side where we are?
- Sandeep Batra:** Our exposure to direct to real estate will not be very significant.
- Vaishali Jajoo:** There is no direct impact if the actual housing comes down?
- Sandeep Batra:** There is impact, but it will not recent, see we are not that directly exposed to real estate industry in terms of first time construction, but yes because if the overall economic growth in India gets impacted like it did in FY'09, it will have an impact in all sectors, why only specifically adhesive.
- Vaishali Jajoo:** Then we take it as a 7%-7.5% GDP growth, so what will be the volume growth number you see in your mind actually?
- Sandeep Batra:** I do not really see any number in my mind at the moment.
- Vaishali Jajoo:** Any indication from the past historical track recording which you think?
- Sandeep Batra:** It will certainly be not as high as it was in the last couple of years, exactly what it will be it will be a bit of crystal ball facing.



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- Vaishali Jajoo:** Thanks that is it.
- Moderator:** The next question is from Rahul Baijal from Voyager Capital. Please go ahead.
- Rahul Baijal:** Just two to three questions, one in terms of prices increase- how much would be the average price increase say last fiscal and in the first quarter of this year for the product portfolio?
- Sandeep Batra:** For consumer products the price increase quarter to quarter will be between 6% and 7% and it will be slightly higher for industrial product, it will be around 9%-10% price increase.
- Rahul Baijal:** So this would be the price increase in the June quarter on a YOY basis right?
- Sandeep Batra:** Yes, what is there in this quarter versus what it was last quarter?
- Rahul Baijal:** Will it be the same for the last fiscal approximately if you remember?
- Sandeep Batra:** It would be slightly lower than that, may be a percentage or so lower.
- Rahul Baijal:** For both consumer as well as industrial.
- Sandeep Batra:** Yes I would say that.
- Rahul Baijal:** You think there is still bandwidth left, given the opportunity on growth going forward to still manage some more price increases or would you wait and watch for the volume growth before deliberating on further price increases?
- Sandeep Batra:** More than the impact of price on volume growth we would be watching the input cost scenario, if we see that the input cost increases are continuing to happen then, we will certainly look at further pricing action. As I mentioned earlier in my call in some of the input cost categories we are seeing some slowing down of these increases in some cases cost have in fact come down from the heights that they have touched in the first quarter that should have positive effect if that trend continues.
- Rahul Baijal:** Assuming that in general let us say oil remains in 110-120 band for the next six months then would it still be fair to assume that we would have seen the worst of gross margin pressure to be over or it could remain like that in the short term?
- Sandeep Batra:** I think on a medium term basis if the cost do not increase and if oil remains between \$110-\$120 then we would say that yes the worst is in that sense over but the question how much



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of that cost increases will come down that is something that we have to see, because fundamentally it is very difficult to understand why input cost increases have been so steep.

Rahul Bajjal: No I am saying that because there was view of developing a few months back that in general commodities will correct because of demand concerns globally, but that view seems to be changing at least on the commodity front because of other reasons as well, so there is new view developing that oil may remain where it is for longer than one anticipated earlier, so this ease off which you have seen in commodity prices, do you see that stabilizing where it is or basically if oil remains where it is, you think the current raw material prices will remain where they are it is not something that you can shoot up again?

Sandeep Batra: It is very difficult to give a one to one correlation to oil, but certainly if you were to look at say VAM where the prices went up by somewhere around 40% between December, May and June, that was not linked to oil going up by 40%, several of these commodities have their own pricing cycle, so there we have seen some amount of easing that has happened.

Rahul Bajjal: Lastly on this bookkeeping question what will be the A&P expenditure this previous quarter; I think last quarter you spend more because of the cricket and all?

Sandeep Batra: January to March we would have spent much more, this quarter has been higher than April-June last year, it would be more around 4% of sales.

Rahul Bajjal: Thanks, Sandeep.

Moderator: The next question is from Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: In case of your new launches over the last year, how have the products done and currently what percentage of sales do they contribute?

Sandeep Batra: We do not disclose specific product wise sales values, but suffice to say that some of the new products that we had introduced like Fevicol Marine like New Coat, which is a construction chemical, waterproofing product. They have all done fairly well, good growth has been recorded, products have got good market acceptance.

Kunal Bhatia: Thank you so much.

Moderator: The next question is from Gautam Chhaochharia from UBS Securities. Please go ahead.



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Gautam Chhaochharia: On the consumer side you see any feedback from your sales team etc., even early signs of any slow down, actually we are seeing very strong sales momentum?

Sandeep Batra: We have not got any feedback on either of the two types, whenever you take price increases growth tends to get mixed up because of the peculiar behavior of the trade in India which tends to stock up before any price increase, so the effect of the pricing action that we would have taken as well as the overall economic situation would be visible in the next couple of quarters as to whether there is any slow down in the allied industries we are not seeing any visible effect or slowdown if we are going to look at results of few of the paint companies that have come in, there is no effect of any slowdown because of inflation, but we have to wait and watch.

Gautam Chhaochharia: In the industrial segment specifically given the bandwidth, do you see more pressure there in our margin and how you utilized on the inventory side there?

Sandeep Batra: I do not see more pressure as far as margin is concerned simply because some of the commodity costs have reached ahead of level, we do not anticipate those commodities to even arise further, some of them have probably doubled over what their costs were about a year back, it are largely used in our industrial product segment, so we do not really see them going up much further, we certainly have some catching up to do in terms of margins there, but we believe that as these cost ease off in the next couple of quarter margins will get back to slightly more healthier level.

Gautam Chhaochharia: Even in the industrial side you will get comfortable?

Sandeep Batra: Yes I would say, the bigger thing to watch out there would be growth.

Gautam Chhaochharia: In terms of inventory how are you placed on that?

Sandeep Batra: We do not carry very significant amount of inventory of finished product, even if we have raw material inventory of some commodities there would be at maximum two to three months of recover.

Gautam Chhaochharia: The reason I am asking is because you are seeing upfront in the prices, so do you have some benefits which you can structure in the second quarter specifically given prices to dip?

Sandeep Batra: You would have noticed that some of the capital employed numbers are higher than what they were last year, that is because of some plant increase in raw material inventories do



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take care of this increasing trend, so we would book earlier whenever we have a firm we know that costs are going to increase, so we would have taken leverage of that arbitrage.

Gautam Chhaochharia: Got it got it thanks Sandeep.

Moderator: The next question is from Siddharth Rajpurohit from Shah Investors. Please go ahead.

Siddharth Rajpurohit: I have three questions, first is on your effective tax rate, you guided last quarter that it will go up from the March ending but we see some upside from that portion, can you guide us further?

Sandeep Batra: The tax rate has gone up from what it was last year, it is closer to 25%; it was some 22% last year. It has gone up from 22% to 25%.

Siddharth Rajpurohit: For the last quarter it was around 26-odd?

Sandeep Batra: Quarter to quarter it is difficult to take a call, it is more on an annual number, if you look at last full year it was about 22, it is now 25.

Siddharth Rajpurohit: Okay so for the full year we can expect it close to 26%?

Sandeep Batra: Around that level.

Siddharth Rajpurohit: Any recent update on the FCCB conversion?

Sandeep Batra: As we mentioned that about time bond has been converted so that is the update on FCCB.

Siddharth Rajpurohit: What is the balance CapEx for Elastomer plant?

Sandeep Batra: It is between 220-250 Crores.

Siddharth Rajpurohit: What portion will be done in FY' 12?

Sandeep Batra: We will give you a split, may be 150-170 Crores will be spent this year. We will do it. I am just telling you to estimate from my numbers.

Siddharth Rajpurohit: Thank you.



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- Moderator:** The next question is from Sakshi Malhotra from Eureka Stock & Share Broking. Please go ahead.
- Sakshi Malhotra:** I just wanted to know what was the converting size in exchange rate, we have taken for conversion in the FCCB till now?
- Sandeep Batra:** The price is about Rs.101, the conversion price and the US dollar to INR was Rs.39.50 at that time when we had done the issue.
- Sakshi Malhotra:** The conversion size for the rest of the thing would also be at 101?
- Sandeep Batra:** Correct it will be Rs.101.
- Sakshi Malhotra:** That is from my side.
- Moderator:** The next question is from Preeti Trivedi from Vantage Securities. Please go ahead.
- Preeti Trivedi:** My question is on industrial chemical side what is the percentage of exports in the total revenue?
- Sandeep Batra:** Total exports of industrial products would be around 40 odd Crores out of a total turnover of 166 Crores.
- Preeti Trivedi:** Second question is if you can help me with the market size of adhesive and industrial chemical in India, overall market size?
- Sandeep Batra:** No I will not be able to answer you on that. I do not have that number to share with you.
- Preeti Trivedi:** Last question is on longer term growth targets of your company. If we assume that if India goes by 8% constant in this next five years, so what kind of growth we can assume for the consumer and industrial chemical segment?
- Sandeep Batra:** We would not like to give any guidance on the future numbers, but suffice to say that if you were to look at a last five years growth track record which is around 20% growth in topline, the economic situation remains the way it is, we would like to see the company growing at that kind of level over the medium term.
- Preeti Trivedi:** Thank you that is all from my side.



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

J. Radhakrishnan: We thank the management for this call and all the participants have a good day.

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