



“Pidilite Industries 2QFY14 Earnings Conference Call”

October 30, 2013



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries 2QFY14 Results Conference Call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you Mr. Ranjan!

Rakshit Ranjan: Thank you. Good morning everyone. Welcome to the conference call of Pidilite. We have with us the senior management of Pidilite led by Mr. Sandeep Batra, Director Finance. I would like to hand the conference over to Mr. Batra to give an overview of the quarterly performance and then we will open the call for Q&A. Over to you sir!

Sandeep Batra: Thanks Rakshit and good morning to all the participants. At the outset let me thank you for your interest in Pidilite and joining the call. I will first give an overview of the performance for the quarter and I will start with the standalone performance.

Net sales grew by 20.7% over the same quarter last year. Growth was stronger in our industrial product segment which grew by 26.8%. Growth in the consumer and bazaar segment was 18.6% in the quarter. Material cost to sales was 20 basis points higher than the same quarter last year and was around 160 basis points higher than the earlier than the immediately preceding quarter. This increase over the previous quarter was largely because of the raw material cost increases because of the depreciation in the Indian currency and also partly because of the sales mix where the share of the industrial products segment was higher than in the previous quarter and that led to some amount of an impact on material cost.

EBITDA before non-operating income grew by 25.8% and profit before tax was higher by 22%. The tax rate in the quarter sees a higher charge as compared to the previous year. There are two reasons for it. One being that the surcharge on corporate tax has been increased from this year to 10% compared to 5% last year and also the sixth unit that we had in Himachal Pradesh had completed its first five-year tax holiday period last year. So, now all our units have completed the first five-year tax holiday period and enjoy tax exemption only on 30% of the profit.

Quick look at the performance of the overseas subsidiaries in the quarter - while nominal growth comes up to around 29% but that has significant amount of gains because of currency translation.



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In constant currency terms, sales grew by 13.2%, growth in the businesses in the US was led by 9.4% growth in sales of Sargent Art, the subsidiary that deals in art materials; however, the business of the car care chemicals, which is under the name Cyclo that declined by 1.6% as the business there focused on enriching product mix.

As a result of this improvement in product mix, the material cost to sales declined by nearly 400 basis points and that resulted in near quadrupling of the operating profit. The business in Brazil continued to improve its sales performance with topline growth of 16.8%. Material cost as a percentage to sales in Brazil came down by 300 basis points over last year, which resulted in a significant reduction in operating losses, which were only Rs12 million as compared to Rs50 million in the same period last year.

The businesses in South and South East Asia reported a 45.8% increase in sales with both the companies in Bangladesh and Thailand growing strongly. EBITDA more than doubled over last year because of the strong sales performance and product mix. However sales in the businesses in Middle East and Africa declined by 7.7% largely due to political disturbances in Egypt and a subdued performance in the UAE and these lower sales resulted in higher operating losses.

A quick look at the segmental performance for the standalone business as I mentioned earlier segment revenue in the consumer and bazaar business grew by 18.6% and segmental profit grew by 29.2%. The business in the industrial product had a very good quarter, with the topline growth of 26.8%, largely led by the Sargent exports and the PBIT for this segment increased by 48.5% mainly because of the sales growth as well as better price realisations for exports.

As a result of this performance on a consolidated level, sales grew by 21.6% and EBITDA before non-operating income grew by 32.3% and PBT was up by 28.8%. So, that is the overview of the performance for the quarter. I am happy to take questions now.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Pritesh:

This is Pritesh here. I just to better understand the number if you could decipher, the consumer in the bazaar products revenue growth number into volume and price, and in the industrial production you mentioned exports drove large part of the growth, and so if you could give more qualitative and quantitative comments on that growth, and do



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you think it is incrementally sustainable that because I think it is a fairly higher number for the last 7-8 quarters that I can see in terms of growth?

Sandeep Batra:

I think the overall volume growth that would have happened in the consumer and bazaar business would be around 15% and the remaining increase would have come from all the price increases that we would have taken either in the second half of last year or in the first half of this year. As far as the growth of the industrial product is concerned, yes you are right that the number is a fairly impressive growth as far as sales is concerned, but you know you have to keep in mind that the export business is not really a business where you service orders on a daily basis. So, there is a possibility that there could have been some bunching up of sales, which reflected in this strong performance. I will not be able to comment on the sustainability or otherwise of these numbers, but yes your observation that this growth is certainly discontinuous as compared to the previous few quarter performance and observation is very correct.

Pritesh:

Can you give us the pricing actions on the key portfolio in the bazaar products in the last 6-8 months what could have been taken and second your take or call on the demand side or the volume side of the business in consumer bazaar products?

Sandeep Batra:

As far as the price increases, we have taken some price increases in the month of June in construction chemicals, which would be of the order between 3% and 5%, and we would have taken some price increases in the adhesive business which is the Fevicol segment where we would have increased prices by between 2% and 3%, but that happened largely in September.

Pritesh:

Your take on the volume side of the business?

Sandeep Batra:

I think the demand condition we have not seen any tangible shift as far as overall demand condition goes. They continue to remain a challenge, so if not that the underlying demand situation has significantly improved, but as said that in several of our product categories it is the efforts that we put in to create demand, which would drive the sales growth for our products. I mean in terms of looking at the split of demand, I think it is the smaller population, agglomeration which are seems stronger growth than the larger tier I cities.

Pritesh:

Many thanks and all the best to you sir.

Moderator:

Thank you. Next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



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- Abneesh Roy:** Sir congrats on a good set of numbers. My first question is if you could tell us how the small town and rural areas are doing, are they still growing much faster than urban?
- Sandeep Batra:** Yes, they are, and I think smaller geographies where we have direct distribution which is towns between 10,000 and 50,000, they would have grown double the national growth rate.
- Abneesh Roy:** This time, you have done well in both parts of the India business, and so if you could add more colour as compared to 1Q what you have done different. Is there any either pipeline filling or we are done some activation why the growth rate suddenly has gone up?
- Sandeep Batra:** I think you know if you look at if we should compare to the performance of the first quarter, I had mentioned that two of the reasons why our growth rate in the first quarter was subdued was because of events like you know there was LBT strike in Maharashtra and some concerns about the early onset of monsoon. So there could have been some issues which did get corrected in the second quarter and that to some extent would have balanced for the lower-than-normal growth rate that we got in the first quarter. Similarly, looking at exports of our industrial products, this I think specifically that we would have done in this quarter other than the fact that we have been focusing on growing our business outside of India which means entering new countries and winning new customers. Some of these actions may have fructified in this quarter, resulting in a much stronger than historical growth rate.
- Abneesh Roy:** Sir, just a follow up on the exports part as you mentioned, new countries, new customers. Could you share some more details as to how sustainable this is and if you could share granular details of which countries or may be the customer profile?
- Sandeep Batra:** I would not be able to share too much details on that, but few of our pigment business, we have been looking at few of the global paint companies to increase our product range that we sell to them, and so in that I think we may have got up to order in this quarter.
- Abneesh Roy:** Sir, my second question is on the international business, some parts of the business have grown at exponential growth rates, Bangladesh, Thailand for 45% and Brazil almost kind of vanished, just a small loss. So in Brazil is there a currency impact which has increased the loss and for Bangladesh, Thailand how you are seeing the sustainable part of the growth and overall if you could comment on strategy for the international business, that will be very helpful?



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Sandeep Batra:

I think specifically if you were to look at Brazil that has been a country where we significantly underperformed last year. I think the reasons, which I would have explained in the call, were largely internal. Our inability to execute and to encash the opportunity in that country, to that I would have said that we have strengthened the management team in Brazil, which meant hiring a person to look at sales and marketing as well as appointing a CEO for the business late last year.

So, I think all these are actions in some manner or now yielding results. We are much stronger as far as execution capability is concerned. In Brazil, we have looked at what are the low hanging fruits and some actions to reduce cost and improve sales have been taken, which are now reflecting in the results. There is no impact positive of the currency as far as Brazil is concerned. The impact certainly would be negative because the currency in Brazil at one time had depreciated even more than the Indian currency and a significant amount of our inputs in that currency in the country are imported. Having said that, we had taken proactive pricing action, which is reflected in the improved profitability in Brazil. Bangladesh performance has been strong all along, because we have done a lot of market development work in that country which is in good stead as we introduced newer products to that subsidiary. So we have a well-established distribution pipeline in that country and we are now putting more and more products through that distribution pipeline. Specifically, in Thailand, I think the change that is the single biggest in that we have done in Thailand also has been to strengthen the local management team there. We had changed sometime in last year and a lot of basic actions to improve our market position have been implemented and that I think is reflected in the results of these subsidiaries.

Abneesh Roy:

Sir, follow up on this, Bangladesh, other Indian companies which are present, are you seen very volatile numbers especially in this quarter? So, you expect this kind of strong growth 45%, is a high number, but directionally you still see strong numbers coming from those two specially in Bangladesh law and order is also an issue and now it goes into election mode also?

Sandeep Batra:

Bangladesh, there is another aspect, which I may have clarified that you know till last year, there were a lot of products that we were selling to our distributor in Bangladesh. From December last year, we started doing redistribution of these products through our subsidiary, and so to that extent there was something, which was not there in the base. So till December part of the growth rate is because of resumption because of commitment of trading operations in Bangladesh that may form may be 20% of the growth. The remaining 20% has come from whatever products we continued to manufacture in that country. Yes, you are right, we do see a lot of volatility there, because of political disturbances, but we do not think that the opportunity there at least



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for us has been fully encashed. So, if we continue to do the right things there, we certainly should see reasonable growth rate.

Abneesh Roy: Sir last question if you allow, on the India business, Terminator, I am seeing some ads and if you could give us now some more details on the new acquisition which you have done in 1Q in Suparshva? Can you now share some more strategy on how you want to do the differentiation and how is it looking now after spending some time in our own company that acquisition, how is it looking now was this when we had bought, some more details?

Sandeep Batra: I think in terms of details as far as the acquisition is concerned, presently I may not be in a position to share it other than the fact that this particular brand that we acquired was a challenger brand to us in a few parts of the country notably some parts in Maharashtra. We would like to run that brand in the manner and it was being run prior to acquisition, because we believe there is a lot of value in the way that business was being run. So while it is a part of Pidilite, we have not really made lots of changes other than changes in the backend in terms of smoothening out the supply chain, looking at capacity related issues and certainly the performance of that acquisition for the last three months has been in the line with quarter internal expectation has been. As far as your question on ad for Terminator, the product that we believe is fairly unique in terms of our portfolio and if doing an advertisement, it is going to increase the sales of this product and that is the right action to do.

Abneesh Roy: Sir, one follow up, the Suparshva over the longer term would you be open to taking it pan India, and so pan-India media advertising, because then you will straddle the complete price ladder?

Sandeep Batra: I think media may not be only way of taking it pan India, and so certainly if pan India is what the fit of that brand is, we will certainly take it pan India. There are no decisions that we had taken that it will be confined to a certain geography or that we will not advertise, whatever is required to grow, yes, we will do certainly.

Abneesh Roy: Thanks and all the best and I will come back.

Moderator: Thank you. Next question is from the line of Ankit Jain from IIFL. Please go ahead.

Lakshman: Good afternoon sir, Lakshman here from IIFL. Congrats for an excellent set of numbers. Sir, can you please tell what has led to this sharp decline in other expense as a percentage of sales and whether that is sustainable?

- Sandeep Batra:** I think part of the reason for the increase in other expenses is we have implemented SAP as an IT, which got commissioned sometime in May, June, and so after than this quarter would see annual expenses on that account. Other than that there would be certain expenses linked to stock movement which we have classified at other expenses.
- Lakshman:** No sir, it is declined rather?
- Sandeep Batra:** No, it is not declined. Other expenses...
- Lakshman:** As a percentage of sales.
- Sandeep Batra:** Compared to?
- Lakshman:** Compared to September quarter of last year?
- Sandeep Batra:** Compared to that quarter.
- Lakshman:** It is gone down by 120bps.
- Sandeep Batra:** I think one reason has been that our advertising and sales promotion expenses in this quarter as a percentage to sales are lower than what it was same period last year.
- Lakshman:** Sir, is it possible for you to quantify what was percentage this year and last year?
- Sandeep Batra:** I think last year it was about 4% and this year it is 3.3%. So, about half the drop is on that account.
- Lakshman:** Okay and what could be the full-year guidance on add expenses?
- Sandeep Batra:** There is no guidance. These are not I mean this quarter is not representative of the full year.
- Lakshman:** I think we will be again having in the range of 3.5-4?
- Sandeep Batra:** I think whatever percentage we had for the full year last year it could be of that order.
- Lakshman:** Sir one more question, on VAM prices, how the prices have moved in the past one quarter and adjusted for rupee depreciation, how it is planning and how to other raw material basis are moving and whether we have passed on the increase in the raw material if any because of rupee depreciation fully already?

Sandeep Batra: I think the VAM prices have remained at that US\$1,000 level. There has been no significant shift on VAM in either direction, neither has been fallen nor have they been increased. The remaining that sub-US\$1,000 level, this is to adjust for currency last year to this year. They are up by about if you look at weighted average in the quarter about 6% for the quarter not for the second quarter.

Lakshman: For the quarter?

Sandeep Batra: For the quarter they are up 6%. If you look at what kind of pricing action, we have taken I think when we had contemplated our price increases, rupee was in the range of between 60 and 62. Then of course it went up to 68 plus and several of the price increases we took late in the second quarter. So, I think the third quarter, this quarter will be if the currency remains stable will be a better indication of whether we have been able to pass all the cost increases or not.

Lakshman: So if rupee is staying at 61.50 type what we are having now, there is no need of further increase in prices at least on account of raw material?

Sandeep Batra: Largely yes. It may not be.

Lakshman: Sir just one more data point, is it possible for you to give breakup of exports and domestic sale for industrial segment?

Sandeep Batra: No we do not share this breakup, I am sorry.

Lakshman: Thanks and that is all from my side. Thanks.

Moderator: Thank you. Next question is from the line of Hiren Desai from IAlpha Enterprises. Please go ahead.

Hiren Desai: Sandeep, congratulations on a great set of numbers. I just wanted to check in the consumer bazaar product, is there impact because of early Diwali or the festive season sort of being a bit early versus last year?

Sandeep Batra: I cannot quantify or comment. These would be fairly all anecdotal reasons and until or unless we see an another quarter we really cannot comment on whether there is advancement of sales, because of Diwali being early November; last year I think it was middle of November.

Hiren Desai: Right. Because I think paints is where at least in the sector we have seen some bit of an impact, because of early Diwali this year?



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Sandeep Batra: I cannot rule it out, but I cannot comment on it, because I really do not know what would be the sales growth. Let us say that would be there in October or in this quarter. So once you have three quarters then maybe we can better deconstruct this number.

Hiren Desai: Within consumer bazaar and product last year, the arts and the other business have been doing really well, and so has the growth sort of stayed at that level or during the 1H of this year?

Sandeep Batra: Yes, I think the growth rate in the real art material than the consumer maintenance products, we are better than the growth rates in the pure bazaar product.

Hiren Desai: The other is on the industrial products I know you mentioned that you cannot give the breakup, but you know earlier exports used to be about 25%, and so has that percentage moved to about 30-35, because obviously the domestic has not done that well over the last 3-4 quarters?

Sandeep Batra: Also in this quarter certainly exports which at annual level has been about a quarter of the sales of these industrial product. In this quarter it would be much higher.

Hiren Desai: Okay, but trending over the last four quarters has the percentage gone up?

Sandeep Batra: I do not have that number ready with me.

Hiren Desai: The other is I just wanted to check in terms of gross margin I know obviously if I do not give any guidance, but is the worst in terms of the currency depreciation behind us, going forward, we would not have to take too much of a price increase right at an overall portfolio level assuming that rupee stabilises at 60- 62 kind of levels?

Sandeep Batra: If rupees stabilize at that level, then yes, I think the worst may be behind as far as raw material inflation is concerned.

Hiren Desai: The other is couple of them actually on the balance sheet, if I look at the capital employed which you disclose on the segmental results when I look at the standalone numbers obviously in both the segment, the capital employed has gone up in excess of 35%. Sir, I was just wondering is there any specific reason, because I think last quarter you mentioned that there was you know some bump of inventory. So any particular reason because the capital employed right now is that the highest level that you know we have historically seen?

Sandeep Batra: There is no seasonality in that sense in that capital employed. Capital employed in these businesses as compared to the last few quarter trends is very much in line, and

part of the reason you know in industrial product it could be because of the higher export where in terms of trade or credit period is given in much longer than what we gave in the domestic business. As far as the consumer and bazaar products is concerned, one reason for the increase would be acquisition that we had made of the adhesive business that would get classified as capital employed in the consumer and bazaar business. So there is something that will come and the return from that asset will come in the coming quarters.

Hiren Desai: If you permit one more, the loans and advances number has actually spiked on year-on-year basis, I think it is up about...?

Sandeep Batra: Loans and advances, there is no, we do not shared any loans and advances.

Hiren Desai: It is given as a part of the balance sheet, the half yearly balance sheet that you guys disclosed. So the number that I have 1H last year is about 103 Crores, these have added both the short-term or loan and advances that has gone to about 280 crores?

Sandeep Batra: I will have a look. I do not remember the reason why that would have gone up.

Hiren Desai: Thanks sir and all the best. Happy Diwali.

Moderator: Thank you. Next question is from the line of Harsh Mehta from HDFC Securities. Please go ahead.

Harsh Mehta: Congratulations on a very good set of numbers. Sir, firstly if you can share the volume growth numbers for the domestic business?

Sandeep Batra: I think volume growth in the domestic business would be around 17%.

Harsh Mehta: As you mentioned, the first quarter witnessed muted 7% volume growth, because of the LBT impact. Now, because of some of the demand of the first quarter shifting to second quarter there might have been some spike in the volume growth. If you can just attribute some number as in what could have been that impact?

Sandeep Batra: I have no idea. I think I would not like to speculate on that number.

Harsh Mehta: On the consumer and bazaar segment, I understand that you do not share numbers on the subsegment, but if you can just give some colour on the main two parts that is construction, chemicals and the adhesive segment?



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- Sandeep Batra:** If you look at the three subcategories that are there, which is adhesive sealants, construction chemicals and art materials, all have improved versus what the growth rate was in the first quarter. So, all have improved their performance.
- Harsh Mehta:** Sir, one more question. On the other income side since the past two quarters there has been a steep decline YoY in the other income. What would be the reason for the same and if you can give some clarity on other income going ahead in the forthcoming and the second half of FY14?
- Sandeep Batra:** I think one reason why the other income number has declined is I think the mix that we had of the treasury income that has changed. Last year we had a larger proportion of the treasury investments in bank deposits. So in the case of fixed deposits with banks you can accrue the income on a monthly basis, whereas this year we have a larger proportion of the income in mutual funds, which are all debt funds, NAV denominated, where the income will be reflected in the month in which we sell that investment. So that is I think the main reason for the reduction in the income. The total amount of investment has remained by and large the same.
- Harsh Mehta:** But sir because the investment as you mentioned is in debt MF, do you not have to do MTM and at the end of the quarter you report?
- Sandeep Batra:** In cases some of the debt funds yes where because of the reduction that happened in the NAV values because of all the governmental decisions in the month of July there would have been some MTM impact but most of that has got negated now.
- Harsh Mehta:** Thank you so much sir.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Good morning Sir and congratulations on a good set of numbers. Just one or two questions on the balance sheet - the receivables have gone up by around 150-160 crores almost compared to March they are almost I can say 40-45% any specific reason for that?
- Sandeep Batra:** That I think is the sale in the preceding quarter; if you see the sale in the fourth quarter was about 750 crores and sale in the second quarter is nearly 1000 crores and so there is nearly a 33% increase in sales 2Q this year versus 4Q last year. So that would be the main reason why receivables have increased.



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- Sachin Kasera:** Secondly sir when you see the segmental numbers the unallocable income has gone up from 27 crores to 47 crores. I believe that is primarily because of lower other income that goes under this unallocable. Is my reading right?
- Sandeep Batra:** Yes part of it is that and part of it is also the forex, the exchange gain or exchange loss if you see in the second quarter there was an exchange gain whereas in this quarter, we actually have a foreign exchange expense. That is if you see second quarter it was a gain of 7.7 crores, 768 lakhs this quarter there is a loss of 610 lakhs that is the big reason for the movement between the two quarters.
- Sachin Kasera:** Secondly sir in the previous call you had mentioned that you were seeing some slowdown on the discretionary part of your portfolio, but obviously this quarter that number has pleasantly surprised. So is it because of some increased distribution network through market share gain or is that the market has been much more resilient than what we were initially looking at?
- Sandeep Batra:** I think the challenges as far as the demand on the discretionary products though had remained. We are not seeing that the demand for our discretionary products is back to the kind of level that it was a couple of years back. Yes it is better than the first quarter but then in the first quarter there were factors other than just this demand headwind in the first quarter. I think in the call I had mentioned there were factors like the early onset of the rains and the LBT strike in Maharashtra, which could have impacted demand of our discretionary products. So in the absence of such factors some amount of demand would have improved, but overall certainly these growth rates in our discretionary products are lower than the historical performances.
- Sachin Kasera:** Just a follow up on the one of the previous questions of the three divisions in consumer and bazaar, how have they done that would be little helpful?
- Sandeep Batra:** No, I do not think I will be able to comment on further details for each quarter. I will not be able to comment.
- Sachin Kasera:** For the first half at least if you could say which of that have grown above the average and which have been in line that would also be helpful.
- Sandeep Batra:** I do not think I will be able to give you. We do not share that information on a quarterly basis.
- Sachin Kasera:** Thank you very much sir and wish you all the best.



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Moderator: Thank you. Next question is from the line of Trilok Agarwal from Birla Insurance. Please go ahead.

Trilok Agarwal: Good morning sir. Congratulations on a good set of numbers. I just wanted to check you have mentioned that in the international business especially in the US and Brazil, raw material cost has declined by nearly 300-400 basis points. If you can throw some light on what led to that decline? Second is on your industrial business you mentioned that the growth has also been a meaningful contribution from the currency devaluation. If you can just say decipher what is your currency devaluation contribution in that?

Sandeep Batra: I think the reason for the improvement in the margins in our overseas units in the US. It has been because of the focus on the product mix. So all the products where we sell that the product did not have a long-term strategic fit and was making low margins we would have reduced our sales in these products. So as a result of which may be the sales growth would have been compromised, but margins are significantly improved. Whereas in the case of Brazil, I think taking the price increases on time is the single biggest reason for the improvement in the margins there. As far as the benefit of currency on our export growth, I think that is something that time will tell as to whether the current rate of rupee to a dollar whether we are more competitive. In this quarter yes the benefit of a stronger dollar versus the rupee has helped our margins. That fact cannot be denied, but on a long-term basis how sustainable I think that only time will tell.

Trilok Agarwal: Is it possible for you to quantify the extent of benefit for the quarter that we enjoy?

Sandeep Batra: You have the segmental profitability data that we have disclosed. We know that the rupee in the quarter on a month-on-month average would have weakened by around between 10% and 15%. So accordingly you can workout what the rough impact of currency would be.

Trilok Agarwal: Finally is the improvement in margins the overseas business are structural in nature?

Sandeep Batra: Yes.

Trilok Agarwal: Thanks for the answer.

Moderator: Thank you. Next question is from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.

Sanjay Satpathy: Sir, congratulations once again for a very good set of results. If you can just help us understand your revenue mix in terms of the smaller towns, which you are saying that



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it will growing at double the national average that would be very helpful. Any kind of broad number of direction in terms of...?

Sandeep Batra:

The direct sales from this channel which addresses smaller towns the initiatives that we have in the company is to look at towns which are less than 50,000 population but more than 10,000 population. These towns get serviced by our normal distribution plus by a special initiative that we have where our own sales team addresses these smaller towns. So the actual sales for these towns we do not really measure but yes what we service through our own sales team that we measure and that sales is about 10% of the entire segment, but of the products that they service it goes up to as much as 17%, 18% is what is directly serviced by our sales team and the growth rate in this channel, which we directly service is double the growth rate at the company level.

Sanjay Satpathy:

Just to kind of hazard a guess there just like it is 17-18% for you overall and so may be like if we include the indirect one it would be at least 25%?

Sandeep Batra:

Some of our products could be; not all the products, but some of the products yes.

Sanjay Satpathy:

Sir is this something which this is the trade, which is because of this agri, rural and all those things or anything more than that?

Sandeep Batra:

No it must because of the fact that the wealth in these markets is increasing for a variety of reasons.

Sanjay Satpathy:

Sir lastly I just wanted to get this basis your receivables has gone up a bit in this quarter compared to that for the March quarter number, is it something which is basically normal for this tie-up?

Sandeep Batra:

Yes, it is normal. Our business has some amount of seasonality where the first and second quarter is stronger than the fourth quarter and receivables will reflect the sales of the immediately preceding quarter. As I explained to somebody earlier, our sales in the fourth quarter were about 750 crores and sales in the second quarter had been nearly 1,000 crores and so there is an impact because of that.

Sanjay Satpathy:

Sir, last question, I would like to understand that from your side, will you say that while the demand is challenging it has to get better rather than get worse from where it is for you?

Sandeep Batra:

I think when certainly we do not really see further downside in terms of growth but when the situation will improve is anybody's guess.



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- Sanjay Satpathy:** Thanks a lot sir for answering my questions.
- Moderator:** Thank you. Next question is from the line of Atul Mehra from Edelweiss. Please go ahead.
- Atul Mehra:** Good morning sir. Congratulations for a strong set of numbers. Sir most of my questions have been answered just two. First is on the second half, do we see the margins that you have reported currently being sustained, because the currency headwinds also have eased towards an extent. So can we see that 2Q margins being sustained by the second half?
- Sandeep Batra:** I do not think our margins have ever been the same across four quarters for two reasons, one is the overall quantum of sales had happened in the quarter and where we always find that our 1Q margins are significantly higher than our 4Q margins and the second reason why our margins are generally not the same across the four quarters is because of advertising and sales promotion expenditure largely the above-the-line media spend that we do. So because of these two variables certainly one cannot extrapolate our 1Q or 2Q margins, but things that the better way to look at our margins would be for a full-year basis rather than on a QoQ basis.
- Atul Mehra:** Just one more bookkeeping question in terms of tax rate, what do we expect the tax rate for this year as well may next year?
- Sandeep Batra:** Whatever is the 1H rate that would be a fair representation of the full year rate.
- Atul Mehra:** Thanks a lot for answering my questions. All the best.
- Moderator:** Thank you. Next question is from the line of Kunal Rakshit from First Voyager. Please go ahead.
- Kunal Rakshit:** Sandeep, congratulations on a great set of numbers. Just a couple of questions, rather clarifications. I just wanted to understand the raw material increased on account of INR depreciation, is it fully being factored into this quarter or did we have some inventory and therefore this possibly not to full impact in this quarter?
- Sandeep Batra:** I think by and large factored.
- Kunal Rakshit:** Then the 2-3% price increase we took an increase in September and so from a gross margin perspective could we say that at least there should be some positive going forward?



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- Sandeep Batra:** Very difficult to quantify.
- Kunal Rakshit:** The next question I have this on the subsidiaries in the first two quarters it seems like there has been a couple of crores loss with the PAT level. What is the outlook for the full year? I know it has improved significantly compared to the previous year but what is the full year outlook for international sir?
- Sandeep Batra:** I think we do not as a company give any outlook or any forward-looking numbers but yes we would like to see the improvement in performance in the first half getting sustained into the second half and so the quantum of improvement that we have seen we would like to sustain it going forward.
- Kunal Rakshit:** Finally I just wanted to check on the construction chemical business, Asian Paints has launched waterproofing products in some of the markets in the south, and so I was wondering, have you seen a growth pressure in those markets compared to the rest of India or are you still managing to grow strong?
- Sandeep Batra:** I think the impact of whatever competitive activity has happened is there that would be there in our businesses. So wherever other companies have introduced have got into waterproofing we would have seen some impact of that on our topline.
- Kunal Rakshit:** Thanks Sandeep. Congratulations again.
- Moderator:** Thank you. Next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit:** Congratulations and thank you for the opportunity Sir. Just one question on the international business especially on the Brazil side, till sometime back our brand was not so strong enough and we were able to pass on the cost and that impacted our operating performance. So are you trying to say that our positions have improved or is it, this improvement is coming because we have taken price increase and the raw materials have come of and we are getting one or two quarters of benefit and probably because of competitive intensity we may are not some time later take a price reduction and then offtake performance again will be the same?
- Sandeep Batra:** No, I do not think our competitive performance has improved in this short period of time. I think it is just the fact that earlier our execution capacities were not as strong as we would have liked them to be. So we have worked on improving that execution part of it and if that means taking price increases earlier than what we would have done in the past then so we would have taken price increases at a time when in the past we may



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have shied away from such price increases. I think this is largely led by an improved execution that we have done.

Amit Purohit: Okay and despite that this sales growth remains strong?

Sandeep Batra: Yes.

Amit Purohit: Just the RM cost was there on a YoY basis, is it lower or is it the better side?

Sandeep Batra: No, I think certainly it is higher because their currency has seen a sharper devaluation than the Indian currency level.

Amit Purohit: Sir what is our capex guidance for this year?

Sandeep Batra: No guidance. I think we would on asset spend something similar to what we would have spent last year plus of course whatever outlay we would have had on the acquisition of that Suparshva. So totality, yes it could be slightly higher than last year because of that acquisition.

Amit Purohit: Lastly if I just try to look at the other segments which is consumer bazaar and the industrial in nature that has seen a significant increase, it is a small number but I am just trying to understand what it is?

Sandeep Batra: Yes, what we have done in that segment largely comprises the manufacturing facility that we have for making VAM and now we had been looking at other specialty products, specialty acetate that could be made in that side, and so we have a few products that we had started selling last year and it is those products that is the reason why the revenue from that segment is higher than what it was.

Amit Purohit: So this should sustain and you look at improvement?

Sandeep Batra: Yes.

Amit Purohit: Thank you and congratulations.

Moderator: Thank you. Next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: Sandeep congratulations on good numbers. Most of my questions had been answered just a few. You just said this 17% domestic volume growth and 15% in consumer and bazaar, am I right?

- Sandeep Batra:** No I said our overall has been about 17% and yes price increase may be about 3% and so consumer bazaar we are ideally about 15%.
- Amnish Aggarwal:** Consumer and bazaar volume growth is over all 17% and so it means industrials have grown volumes at a higher basis?
- Sandeep Batra:** Yes, because their revenue also has grown around 26%.
- Amnish Aggarwal:** Now in view of the fact that first quarter we were at the 7-7.5% and now we have suddenly come to this sort of a level, do you think we will be able to sustain this momentum going forward given the challenging macroeconomic environment?
- Sandeep Batra:** I would hesitate to say that the second quarter is a true representation of the underlying situation on the ground. I would not say that. Second quarter has some amount of the spillover from the first quarter for a variety of reasons that we had that I had explained earlier.
- Amnish Aggarwal:** Okay, so it means if you look at then first half is a better representative?
- Sandeep Batra:** Certainly better than the second quarter.
- Amnish Aggarwal:** Okay so then I think the volume growth would average say around 11-12%?
- Sandeep Batra:** Our first half volume growth domestic will be about 12%.
- Amnish Aggarwal:** So that would be a better representative for the full year.
- Sandeep Batra:** Well I do not know whether it would be the representative but certainly it is a better representative than the second half than the second quarter.
- Amnish Aggarwal:** OK and secondly in the international business we have seen quite a good improvement but can you share with us in absolute number that in rupee terms what is the sales in the international business and how much is the EBITDA and the same figure for last year same quarter?
- Sandeep Batra:** International sales in the second quarter this year would be about 115 crores last year was 89 crores and EBITDA without exceptional items this year is 5.2 crores last year was -0.8 crores.
- Amnish Aggarwal:** So it means as I seeing of nearly 6 crores it basically?
- Sandeep Batra:** Yes of that order that is correct.

- Amnish Aggarwal:** In international business now this kind of a run rate at the EBITDA level can we extrapolate it for the future or is it too early?
- Sandeep Batra:** I think it may be premature, but improvement that we have got certainly is something that we would like to build on going forward.
- Amnish Aggarwal:** Finally sir any update on the Elastomer project?
- Sandeep Batra:** No update.
- Amnish Aggarwal:** Thanks.
- Moderator:** Thank you. Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sandeep, congratulations on a good set of numbers. Sandeep, I just wanted to understand if you look at your Brazil subsidiary, which segment the Brazil numbers will be captured in your segmental numbers within consumer and bazaar?
- Sandeep Batra:** They are all consumer and bazaar.
- Tejas Shah:** So their present headwind look at this in sealants also and construction chemicals also?
- Sandeep Batra:** Largely into adhesive and sealants and some into construction chemicals.
- Tejas Shah:** So whatever growth has happened is mainly in that segment of consumer and bazaar?
- Sandeep Batra:** Yes.
- Tejas Shah:** Sandeep in your commentary you mentioned that your price hike sequence all that you took price hike in construction chemicals and then two months after that in adhesives and Sealants. So was there any raw material pressure also happened in that sequence or was it competitive pressure, which led you to do that begin and then in that sequence?
- Sandeep Batra:** No, it was largely to manage whatever pressure was there on the margins.
- Tejas Shah:** Okay so you are saying that the raw material pressure was higher in construction chemical at least in sequence file it was before?
- Sandeep Batra:** No, it is not that I think our approach taking price increases was not as in seven, ten years. I think we generally wait to get a better idea about the long-term view on cost before we take pricing action and so in the case of construction chemicals we would



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have reached the conclusion earlier than what we would have reached in the case of the Fevicol business.

Tejas Shah: OK, because the way we understand your competitive power or pricing power is higher in adhesives, sealants compared to construction chemicals. Sir I just wanted to know after this price hike in your gap between your pricing point in water proofing has it increased with Asian Paints or we have also taken price hikes in line with your sales?

Sandeep Batra: First of all I think the kind of waterproofing products we have are a full wide spectrum of waterproofing products. I think the area that we are seeing competitive activity and competitive intensity is in the terrace waterproofing segment where we have a product called Newcoat. So in that I think their competitive approach would have been to introduce a lower price product and we would have taken suitable action in the marketplace. So how the effect of what they have done would have impacted on our profitability is very difficult to segregate and comment.

Tejas Shah: Fair enough. Sandeep what proportion of I do not know whether this data would behind you right now but what proportion of distribution and construction chemical will be through paint stores?

Sandeep Batra: No I do not have that data.

Tejas Shah: Just wanted to understand where do you capture the number for brands like Terminator or Motomax? Is it part of adhesives and sealants or construction chemicals?

Sandeep Batra: I think Terminator may be in adhesives and sealants. I really cannot tell you an answer now as to get as Terminator.

Tejas Shah: Because the size is very small, right?

Sandeep Batra: Yes.

Tejas Shah: Finally any update on Hybrid Coatings? Are we investing anything in further in that JV?

Sandeep Batra: Yes, we will be now it probably will happen in this quarter or in the fourth quarter at most probably in this quarter something will happen there.

Tejas Shah: Are we expanding capacities over there?



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- Sandeep Batra:** I think the capacity has to first come on board. We were that business where we were partnering, they were building their capacity. I think that capacity has now been completed. There are a few other loose ends to be tied up before it gets commercially fully on stream so once those loose ends get tied up then we would look to invest and then take it to the next level.
- Tejas Shah:** So when we say coating does that means low-end paint?
- Sandeep Batra:** No that is not into low-end paint that is into very high-end construction chemicals.
- Tejas Shah:** So that is part of construction chemicals only?
- Sandeep Batra:** Yes.
- Tejas Shah:** Thanks and all the best.
- Moderator:** Thank you. Next question is from the line of Rohit Gajare from UTI Asset Management Company. Please go ahead.
- Rohit Gajare:** Sir one quick question, you put a transition loss in the other income so this is despite rupee depreciation. So how should I read it this is from forex payables, which matured in the quarter or there is something else?
- Sandeep Batra:** No I think this loss was largely on account of to recall one of the reasons why we have a forex gain in the first quarter was that our exports were not hedged, all our imports were hedged; exports were not hedged. So when the rupee weakened we got a gain when the converts happened, the gain in some sense got erased. So it is more unraveling of the gain that we got in the first quarter.
- Rohit Gajare:** Thanks.
- Moderator:** Thank you. Next question is from the line of Nitik Goshar from Religare Invesco. Please go ahead.
- Nitik Goshar:** Sir, good afternoon. I just wanted to understand in Brazil where we operate does our peer set also face the same problem like they also have a lot of import cushion in the raw material?
- Sandeep Batra:** Yes we would have the same, everybody would have the similar raw material cost structures and supply sources.



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- Nitik Goshar:** Thank you.
- Moderator:** Thank you. Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thanks for the opportunity and congratulations on a good set of numbers. Sir just I wanted to get a sense on your distribution network currently?
- Sandeep Batra:** You want to understand our distribution network?
- Kunal Bhatia:** No in terms of number of...
- Sandeep Batra:** There is no major change whatever our structure was we have not significantly changed our distribution network between the earlier quarter and this quarter largely chain.
- Kunal Bhatia:** You did mention about that you are targeting the smaller towns between 10,000 and 50,000 kind of population and so on the distribution end what is your target in terms of increasing the reach, not one year in particular say over the span of 2-3 years down the line?
- Sandeep Batra:** I think we are focused and we are present in these markets. These markets are growing faster than the national average and we believe that the level of penetration or the consumption in these smaller geographies is much lower than the more developed parts of India. So that is why we are focusing on these geographies because we believe the growth opportunities are higher there. We do not have any specified targets but certainly we would like to see the share of these markets to the overall sales increasing.
- Kunal Bhatia:** Sir and second question would be on VAM prices apart from the currency backed, what is your take on VAM prices going forward?
- Sandeep Batra:** I think as of now they are steady at that sub-US\$1,000 level and certainly in the next quarter or so we do not see it moving up significantly.
- Kunal Bhatia:** Thank you so much and best of luck.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Rakshit Ranjan for closing comments.
- Rakshit Ranjan:** Thank you. On behalf of Ambit capital I would like to thank Mr. Batra and the participants on the call. I will hand the call back to Mr. Batra for any closing remarks.



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Sandeep Batra:

I would just like to wrap up the call by thanking everybody on the call for taking out the time and for their continued interest in Pidilite and thanks to Ambit and Rakshit for organising it. Thank you very much and everybody have a good day.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.