"Pidilite IndustriesLimited Q4 FY15 Post Results Conference Call"

May 20, 2015

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MODERATOR: MR. RANJIT CIRUMALLA – AVP RESEARCH, BATLIVALA & KARANI SECURITIES INDIA PVT. LTD.

Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Q4 FY15 Post Results Conference Callhosted by Batlivala & Karani Securities. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ranjit Cirumalla. Thank you and over to you sir.

Ranjit Cirumalla: Thank you. We at B&K Securities welcome all the participants to the Pidilite Industries 4Q Earnings con call. We have with us today Mr. Sandeep Batra – CFO of the company. I will request Mr. Batra to start off with initial remarks on the performance during the quarter and the year as a whole and later on we take up the Q&A session. Over to you sir.

Sandeep Batra: Thanks Ranjit and a warm welcome to everybody on the call. Let me start with some highlights about the performance regarding the 4th Quarter and full year results which were approved by the Board at its meeting yesterday. A first look at the consolidated performance for the quarter, Net Sales grew by 5.3% over the same period last year. Material cost as a percentage of sale is lower by 382 basis points over the same quarter last year largely due to lower prices of raw materials and price increases taken during the year. Total Expenses however were increased by 9.8% largely due to a 16% increase in Other Expenses on account of higher advertising and sales promotion spends. EBITDA before non-operating and exceptional items grew by 30%. Profit Before Tax is a growth of 6.8%.

A look at the standalone performance for the quarter, Net Sales grew by 6.7% over the same period last year led by a 9.7% growth in branded Consumer and Bazaar products. Industrial products however declined by 1.6%. Our Material Cost as a percentage of sales is lower than the 4th Quarter last year by 508 basis points due to reasons as I explained earlier, lower input costs and the benefit of price increases taken during the year. Other Expenses during the quarter were higher than last year by 27% largely a factor of higher advertising and sales promotion spend where we ran a fairly long advertising campaign during the ICC Cricket World Cup. EBITDA before non-operating income and exceptional items is higher than last year by 19.2%. However, non-operating income is lower by 57% largely due to lower investment income. You may also note that effective 1st April, 2014 we had revised the depreciation charge by reducing the useful life of the assets as suggested by the Company's Act 2013. As a result of which the depreciation for the quarter is higher by 8.7 million. During the 4th Quarter the company has provided for diminution in the value of investment in its wholly owned subsidiary which is largely the Brazilian subsidiary for an amount of Rs. 127 million. You may note that this127 million provision does not feature in the consolidated accounts because it has no impact on the consolidated results. Due to the lower non-operating income and this provision for diminution in the value of investment the Profit Before Tax is lower than last year by 10% and Profit After Tax is lower than last year by 12.9%.

The Board has recommended a dividend of Rs. 2.90 per equity share of Rs. 1 each for the year 14-15. This compares with a dividend of Rs. 2.70 per equity share declared last year. The payout ratio is about 35.7% compared to 34.5% last year.

A look at the full year's performance standalone performance Net Sales are higher by 13.5%. Material Cost is at the same level as last year when measured as a percentage of sales. Our EBITDA before non-operating income and exceptional items is higher by 12.5%. However, the impact of the higher depreciation because of the revised useful life works out to Rs. 200 million for the year and that therefore depresses the growth at our Profit Before Tax and Profit After Tax level, so our Profit Before Tax has grown by 5.9%.

A quick look at the segmental performance, Consumer and Bazaar products, the revenue for the quarter is higher by 9.7% whereas for the full year the revenue is higher by 15%. The segmental profit for the quarter has grown by 11.8% and for the year the profit is up 7.6% for Consumer and Bazaar products. In the case of industrial products the segment revenue in the quarter declined by 1.6%. However the segmental profit has grown by 56% largely because of lower input costs.

A look at the performance of our overseas subsidiaries, the reported numbers show much higher sales growth but if you were to adjust for currency translation effect and a new trading business that we have started in Dubai, comparable growth is 10% during the quarter.

A look at some of the geographies of our overseas businesses, the North American business had a nominal sales growth. The Cyclo, the Car Care business declined by 14% in the quarter because of adverse weather conditions in the US in January and February, however, sales of Sargent Art which is the Art Material business that in the same period has grown by 22%. The loss of the North American business at an EBITDA level for the quarter was 11.2 million versus 8 million in the 4th Quarter last year. In the South American business sales grew by 26.9%, largely a function of a very low base in the 4th Quarter of last year, however, margins in South America have improved by 340 basis points largely because of price increases that we have taken. And the loss at EBITDA level has declined to 23 million as compared to 96 million loss in the 4th Quarter of last year. Some of the higher losses in last year were because of some one-off provisions that we had taken but nonetheless the losses in that business has significantly reduced. The Middle East and Africa business in the quarter the sales grew by 290% but that includes a distribution business largely of Pidilite products which from a third party distributor has been taken over by our subsidiary. Adjusting for this new distribution business revenue in Dubai was flat. Sales in Egypt grew by 6.2%. However the losses in the Middle East and Africa businesses were higher than the 4th Quarter last year largely on account of margin pressures. The South and Southeast Asia business sales grew by 9% and EBITDA increased by 50% largely because of an improved product mix. At a total level for all our overseas subsidiaries, for the full year the EBITDA was last year 44 million and this year it is 127.8 million.

That's all I had by way of my opening remarks, happy to take questions now.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Aabhas Podar from Ialpha Enterprises. Please go ahead.

Aabhas Podar: Thanks for taking my question, so just wanted to understand in the Consumer Bazaar product for the full year overall which pocket would have grown meaningfully slower or faster than the overall growth?

Sandeep Batra: I think in the Consumer and Bazaar if you look at the relative growth rates of our products in all the segments the decline would be pro-rata, so it's not that any particular segment has underperformed or has grown slower as compared to the historical growth rate, so the slowdown is in some sense even across all the sub-segments.

Aabhas Podar: Okay. And within the quarter also was it a decelerating trend in the sense March was weaker than February and February was weaker than January or overall for the full quarter the growth was slow?

Sandeep Batra: No, I don't think there was any secular decline within the quarter that one can comment on. I think the overall quarter by itself was much slower than what the historical trends have been.

Aabhas Podar: Okay sir, thank you.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Hi sir thanks for taking my questions. Would it be possible for you to share the volume growth for the quarter for the domestic business?

Sandeep Batra: The total volume growth for the quarter was about 3.1%. The Consumer and Bazaar volume growth was higher, it was around 5.5% whereas the industrial business was the one which saw headwinds both value and as well as volume growth was negative.

Gunjan Prithyani: Okay. And you said 3.1% overall, right?

Sandeep Batra: Yes, for the standalone.

Gunjan Prithyani: Okay. And in the industrial business is it the price cuts, which has led to today de-growth in the value growth?

Sandeep Batra: No, it is not price cut. I think the overall environment both in India as well as in the markets to which we export that has been negative and that is why I think the sales growth has been so much lower.

Gunjan Prithyani: Okay. And in terms of our gross margin expansion we did see a significant expansion especially in the domestic and stand-alone P&L for almost about 500 basis points. So last call quarter you had mentioned that we were carrying a bit of high cost VAM with us. Is that inventory now behind and how do you see the margin trends here on going into FY16?

Sandeep Batra: I really can'thazard a guess for what the margin for the entire year will be because that depends on several factors, how the raw material trends behave, how does currency behave, but certainly for the 1st Quarter if you were to look at absolute gross margins what we earned in the 4th Quarter would largely represent what the 1st Quarter margins could be like.

Gunjan Prithyani: Okay. But in terms of pricing I mean two things, firstly if you could share what's happening with the VAM prices now, what are the current trends? And secondly, is there any pricing action which is there because of the RAM deflation that we may look at cutting prices across our products because we did take a lot of price increases for our White Glue products due to VAM appreciation that we had seen.

Sandeep Batra: VAM prices are currently between $1000 and $1100 so they are hovering between….I think there were some purchases that we had done at $980 some will come at 1035, 1075, so VAM is hovering at sub-1100 levels so between 1000 and maybe 1080, that is the kind of level of VAM. But we are not contemplating any price cuts for the moment.

Gunjan Prithyani: Okay. And just a last question from my side, in terms of advertisement we did run a very aggressive campaign around the World Cup but next year is it that we are looking to deploy more in advertisement and promotion given the demand environment has been pretty weak?

Sandeep Batra: No, we are not looking to in any way significantly step up advertising. We have over the last few years increased spend so full year spend will be about 4.2-4.3% of sales and we are not looking at any major change as far as that number is concerned. Certainly it is not that we spend the same amount every quarter so you could have some quarters where the spend will be lower and some quarters where the spend will be higher.

Gunjan Prithyani: Okay. And for full year FY15 what would the number be because we don't get the breakup?

Sandeep Batra: Total advertising for the full year would have been as I said 4.2% of sales.

Gunjan Prithyani: Okay alright, thank you so much.

Moderator: Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Asset Management. Please go ahead.

Manish Poddar: Just had one question, you used to give the raw material index, let's say from a year-on-year basis what is the number trending on right now?

Sandeep Batra: I don't have any number on the index. But I think if you look at some of the key raw materials they would be lower than what they would have been in 4^{th} Quarter of last year maybe by a couple of percentage points. But I don't have an index to share with you at the moment.

Manish Poddar: Okay fine, that's helpful, thanks.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: Sir thank you for taking my questions. In terms of market share given the growths which we have shown in the 4^{th} Quarter would we have seen a gain, a loss in any segment?

Sandeep Batra: There would have been no perceptible shift in market share because in several of the categories that we are at it's not so much the competitive action that may be the result of the growth rates that we have. So there has been no marked change in market shares in the 4th Quarter.

Arjun Khanna: And in the industrials have we seen an uptick in the unorganized segment?

Sandeep Batra: No. There is not much of unorganized in the industrial segment in any case. Much of it is sold by well-known companies.

Arjun Khanna: And in terms of price cuts while you indicated we may not look at them, have competitors cut prices?

Sandeep Batra: No, not that I am aware of.

Arjun Khanna: Fair enough. Sir you did break up A&P for the year being at 4.3%. Could you let us know in the 4th Quarter what would be our A&P spends?

Sandeep Batra: Our advertising and sales promotion spends in the 4th Quarter was about 6.3%.

Arjun Khanna: Sure thanks for that. My last question is in terms of the services business we had acquired Nina Concrete Systems. This happened after, I think, the closure of the last quarter.

Sandeep Batra: Yes.

Arjun Khanna: Could you tell us how do we see this business growing forward in the future?

Sandeep Batra: This is a business which was being run by this company called Nina Concrete Systems. We formed a new company called NinaWaterproofing Systems in which Pidilite has 70% shareholding and this company has then acquired waterproofing application business from Nina Concrete and the way we are looking at the business is that there is a big opportunity in bringing an institutional face or institutional process to this whole waterproofing application business. Several customers who we would have interacted would have expressed a demand that we don't want to buy a product and an application separately, why don't we have a company which can provide both, have access to products as well as provide the service and we believe there is significant opportunity if we are able to deploy our strengths into this business to grow it and make it a meaningful part of our portfolio.

Arjun Khanna: Just to understand, this should be more customer facing or this will largely be projects in the sense of a B2B?

Sandeep Batra: This would be largely in that sense B2B so they will do waterproofing of large projects. They are not going to be doing waterproofing of small independent homes; there will be large projects that they will take up waterproofing applications for.

Arjun Khanna: Sure. If you can just help us with a final book keeping, what kind of CAPEX do we expect for FY16 and 17 and what tax rates could we expect for those respective years?

Sandeep Batra: For current year our CAPEX excluding any inorganic areas would be in the range of 175 to 200 crores. And as far as tax rate is concerned tax rate will go up in this year because three of our units in Himachal would have completed their 10 year tax holiday, so the tax rate will go up by about 150 basis points this year.

Arjun Khanna: That would rest at around 26%?

Sandeep Batra: No it wouldgo beyond 27%.

Arjun Khanna: 26.

Sandeep Batra: Yes.

Arjun Khanna: Sure, thank you so much sir.

Moderator: Thank you. The next question is from the line of Ajay Mukherjee from Microsec Capital. Please go ahead.

Ajay Mukherjee: Thank you for taking my question. Actually my first question is the volume regarding you told for 3.1% in total for the year or the quarterly?

Sandeep Batra: For the quarter.

Ajay Mukherjee: For the quarter YoY or ….?

Sandeep Batra: Quarter-on-quarter, same period last year.

Ajay Mukherjee: If you make a comparison for the total year what will be the volume growth?

Sandeep Batra: For the year the volume growth will be about 8.7%.

Ajay Mukherjee: Very good. Another question is there any new launching in the coming quarter?

Sandeep Batra: We do not have any mega product launches of the nature which some other companies may have but there is nothing in that sense which is noteworthy that I can share with you.

Ajay Mukherjee: Okay. And you told that CAPEX is 175 to 200 crores in the coming year.

Sandeep Batra: 175 to 200 crores.

Ajay Mukherjee: Okay thank you.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: Goodafternoon sir. This is an observation and just wanted your thoughts on this. I have been seeing your last four years annual gross profit margins trend and the current year's gross profit margin trend too remains in the band of 44 to 45%. One can say it is tightly managed and one can say we are not able to see the brand power which otherwise should get reflected in the gross margin over a period of time. In this last four years we have seen gross….. raw material prices moving from one tandem to other tandem. I am just trying to understand over a period of last four years block if I were to understand the gross margins does it give some kind of indication that this is the way it remains in this part of the business?

Sandeep Batra: No it is not that we target any particular gross margin number for the year, so it is not that at the beginning of the year we will have a margin of 44 or 45% that you refer to, it is probably a coincidence that margins have been that level. We rather look at margins that are more product level to see what is it that the product should earn given the kind of stage ofevolution, that product is it, what is the competitive landscape for the product and so on and so forth. What you see at an aggregate level is just a summation of all the individual numbers and coincidently at least for the last two years the margins at a percentage have been identical but it's more a coincidence than a planned number that we target.

Nitin Gosar: Okay. Rather than splitting it into numbers do we have within the business certain segments which are commanding higher gross margin and directionally once their share of revenue goes up so should be the company's gross margin trend line?

Sandeep Batra: Of course all our products don't have the same margin so there would be some which are better than what you are seeing at a consolidated level and there are some which are below that which are at consolidated level but the gap is not very significant. We would like all our products to have reasonable gross margin because we believe for us to do adequate demand generation the products must be profitable at our gross margin level so that some of that profit we can redeploy with a view to doing demand generation and growing that category which has been the philosophy for the past several years in the company.

Nitin Gosar: Lastly, just harping on this again, new product launches whatever happen this becomes the benchmark gross margin for them to hold on to internally.

Sandeep Batra: Exactly, when we look at new products and given the kind of markets that we are in, it is not that we introduce a product in competition to somebody. We introduce a product in order to address a latent need of a customer and generally all our new products would have a kind of gross margin which would be able to support all the expenditures that is required to grow the product or to build the category. So that is the philosophy that we have when we look at a newproduct that the gross margin must be rich and adequate enough to support the demand generation that will be required to build that category.

Nitin Gosar: Okay. Quarter-on-quarter the change in gross margin that we are seeing right now is purely an outcome of the raw material deflation that we have seen.

Sandeep Batra: No not really it is something that, one of course yes, that there is effect of raw material deflation but also the benefit of all the price increases that we would have taken as a consequent to the increase in the input prices.

Nitin Gosar: Okay and that is why it may continue for one more quarter that's what a possible situation you indicated?

Sandeep Batra: Yes, at the moment one cannot predict what the currency situation will be going forward so I will limit a comment only to this quarter as far as margin is concerned.

Nitin Gosar: Okay. Standing today you have covered up till 65?

Sandeep Batra: Meaning?

Nitin Gosar: I mean the kind of price hikes you have taken and if the INR remains at 65 you should be able to withstand this regime of 45% gross margin. Should that be a better understanding?

Sandeep Batra: No that will not be because if Rupee currently is at 63, if Rupee weakens by another 2% that will have a direct impact on my cost. So we cannot say that till 65 we are protected. It is a combination of commodity cost; it's a combination of currency. So at the moment yes, if all things remain the way they are that's the kind of margins that one may see in the 1st Quarter.

Nitin Gosar: Right sir, thank you and all the best.

Moderator: Thank you. The next question is from the line of Pankaj Chopra from Shanti Asset Management. Please go ahead.

Pankaj Chopra: Thank you very much for the opportunity, just wanted your comments if I missed that is, what is the status on the elastomer project, anything finalized and is there something which we finally do with it.

Sandeep Batra: No nothing is finalized, the status remains what it was in the last quarter that we continue to be looking out for a strategic partner and further outlay on the project would be done only after the strategic partner is finalized. So there has been no movement on the project either way.

Pankaj Chopra: Then does it consume any cost at the moment for maintenance of some sorts?

Sandeep Batra: No.

Pankaj Chopra: Okay. Sir the second question is more on a general sense, could give us a flavor as to what is the innovation process or the process for new products within the company. Maybe I can add a small question to that is what percentage of your revenues in a year normally would be from products launched in last two years? Would that be a fair way to look at it?

Sandeep Batra: To answer your second question first we do not really in that sense measure actively what is the proportion of sales from products introduced either in last one or two or three years but we do certainly recognize the relevance and importance of innovation to the success of the company and to that we have a fairly robust process for new product introduction, so there are several sources from which ideas keep on getting generated. We have what typically companies would have is an innovation funnel into which all these ideas go and they pass through a stage gate process where they get evaluated and validated at various stages which finally would culminate into a new product introduction. So the process is no different from what most companies would follow but unfortunately I don't have any numbers in terms of what proportion of our sales comes from new products to share with you at the moment.

Pankaj Chopra: And these products would largely be related to two areas that you are already working in category which you are already working in or….?

Sandeep Batra: Largely yes, they would be part of the adhesive sealants and construction chemicals space but yes over the last few years the majority of the new products would have been in construction chemicals and some in the mainstay adhesive business.

Pankaj Chopra: Right, could you give us a flavor of the construction chemicals per se as to how that's been doing? We believe there is competition coming in quite aggressively from couple of other players like largelypaints business etc. Could you give us a flavor what's happening there and what challenges you foresee? I mean is it the market needs to be grown or is it competition or is it consumer may be habit change or maybe introduction to products like such as these?

Sandeep Batra: The main focus for us has been in growing the market and which is through both distribution, getting new products introduced as well as making customers and influencers aware of the products that we have to offer and how they are able to address the pin-points or the demands or the needs of the consumers. Competition is something which is not something that we can do very much about other than the fact that we compete in the marketplace but the bigger focus for us has been to grow the market and where we believe even if there is competition that will only help in growing the market faster.

Pankaj Chopra: Are you facing this level of competitive intensity to be talking about it?

Sandeep Batra: No I don't think that is the factor which in any way would have impacted or influenced our results.

Pankaj Chopra: The increase in dividend payout seems to be relatively lower than what would be the possible cash accrual at the moment, is there a thought process which is gone behind it for some level of cash accruals for some other objectives or its just natural small increase every year?

Sandeep Batra: No the increase in any case is very nominal and that is not a signal of anything. I think historically our payouts have been of that level; about a third is what we have paid out because that whatever cash we would have got redeployed in the business. So if you would note that last year we did a major acquisition when we bought the adhesive of Blue Coat, earlier in this financial year we made a small investment in Nina Waterproofing to acquire the waterproofing application business. We remain engaged in several other similar projects, both in India as well as in some identified geographies outside India and we believe that given the CAPEX and other inorganic plans that we may have that's the right level of payout.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: Sir on this waterproofing business, would like to indicate what kind of growth we would have seen in last quarter?

Sandeep Batra: In the construction chemical business?

Nitin Gosar: Yes.

Sandeep Batra: No we don't give out the sub-segment wise growth numbers.

Nitin Gosar: Within this segment if one were to just split it up between B2B and B2C, have we seen any kind of divergent in the growth trends between the two segments?

Sandeep Batra: Certainly the B2C segment for us grown faster than B2B. We know the various challenges that are there as far as large projects are concerned, area few and far between and progress is much slower than one would have expected. So our growth rates in the retail part of the business have been higher than in the B2B part of the business.

Nitin Gosar: Your comments were with regards to B2C?

Sandeep Batra: I said B2C has been faster which is retail a part of the business; they have grown faster than the institutional or B2B segment.

Nitin Gosar: And if one were to grow this B2B business which possibly would happen through the recent acquisition, this will call in for certain kind of additional working capital requirement?

Sandeep Batra: Nothing additional as far as the Pidilite standalone company is concerned. If that working capital cycle for application business is very different from the waterproofing of a branded consumer product company. So to that extent that would be part of the business model of the two businesses that we are present in so there would not be additional working capital in that sense from the company.

Nitin Gosar: In the industrial segment where we have seen some kind of dip, is it more to do with the volume dip which has happened or is it more to do with the currency related products?

Sandeep Batra: No it has both, volumes have declined. We have some amount of exports that we do to the Euro-zone, we know how the Euro has performed versus the Rupee. There has been a significant depreciation in the Euro, Rupee has strengthened against the Euro but that has had an impact. But overall markets both in India as well as the global markets where we export industrial products to, both have remained soft.

Nitin Gosar: But net-net we would have seen some kind of volume growth?

Sandeep Batra: No there would be no volume growth. Volumes also would have declined.

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

Tejas Shah: Sir if you could share some color, some thoughts on rural-urban growth momentum for this quarter and as a whole for the year as a whole.

Sandeep Batra: We don't track separately what is rural growth and what is urban growth but certainly we do track sales that happen from the dedicated Rurban distribution arm that we have which markets to towns which are less than 50,000 population. So, both rural as well as urban growth rates have come down but relative faster growth of rural remains so whatever was the ratio historically the same ratio has remained so rural continues to grow faster but both rural and urban growth rates have come down in this quarter.

Tejas Shah: Looking at the slowdown which you are witnessing across consumer categories, do we have flexibility to cut prices if required to revive volume growth in particular?

Sandeep Batra: Yes certainly we have I'm in there is no flexibility issue as far as cutting prices is concerned but that has never been a factor which has impacted demand. Price in use of our product is quite insignificant compared to the total outlay of the consumer so price has never been a consideration which could or would impact demand.

Tejas Shah: Have we ever historically cut prices in significant manner to revive demand?

Sandeep Batra: We would have cut prices. I think the last probably would have been in 2009-10 when commodity prices very-very sharply corrected. So oil which has touched 150 reduced to $50 kind of levels and the government also gave lot of benefits in the form of excise duty, cuts and all that. That would be the last that I remember when we would have cut prices but they would never have been drastic so the drop may have been 2-3% at that time. We are not witnessing that kind of a reduction in our input cost in the manner of speaking.

Tejas Shah: Just an observation you can correct me if I'm wrong. Is the incremental advertisement spend going more on construction chemical products or is there a still balance between all the segments?

Sandeep Batra: We don't look at advertisement at a company level and then do an allocation. I think the advertisement spend is dependent on each product category or each business and whatever is required to be done for growing that business would be spent behind it. So it's not that we take a call saying incremental spend should go to this business. If the construction chemical business is growing faster it will require more resources to support the growth and so therefore to that extent the quantum of advertising in construction chemical may be higher.

Tejas Shah: And sir looking at the kind of competition construction chemical category is attracting, do you believe that the new competitors will expand market first before you start worrying about market share all you believe that the market is not that big and it will start hitting on market share first?

Sandeep Batra: I think the addressable opportunity is very large so if you look at opportunity of nonusers, it's a very-very large opportunity and which is what requires to be converted into users so that construction chemical products can get sold. What our new entrant will do is very difficult for me to comment on but going by normal common sense the new entrant would certainly like to take away share of an existing player before they focus on expanding the market so yes the initial reaction maybe to take market share by offering products at lower prices but that's never been our focus. Our focus has all along been to create the market and expand the usage of our products for which we believe the opportunity is still very large.

Tejas Shah: Lastly was there any rollover of any treasure income this year which got accrued but not recorded?

Sandeep Batra: No there is no rollover. What has happened is that the tax rates for debt funds which are held for less than 3 years that rate has been changed in the last year's budget and therefore it makes economic sense to not redeem or not take the fixed maturity plans or debt funds before the three-year maturity period so there will be some amount of the income recognition which may get shifted.

Moderator: Thank you. The next question is from the line of Avneesh Agarwal from Prabhudas Liladhar. Please go ahead.

Avneesh Agarwal: Sir my first question is regarding the fact that you are saying that your tax rate will go up next year because some units have come off from the excise exemptions so due to that excise duty also will go up?

Sandeep Batra: Yes.

Avneesh Agarwal: What could be the quantum of that?

Sandeep Batra: Excise duty increase will be about a percentage of sales at the totality level.

Avneesh Agarwal: And in FY-15 what could be excise as a percentage of sales?

Sandeep Batra: Excises is about 6%.

Avneesh Agarwal: In FY-15?

Sandeep Batra: Yes 6% of sales.

Avneesh Agarwal: We have seen some sort of a slowdown in sales partly due to the demand but if we look at the fact that we have been making acquisition of the smaller players on a regular basis in the last couple of years though we don't have the breakup but then it would amount to that the slowdown is actually much more pronounced.

Sandeep Batra: I didn't understand your question.

Avneesh Agarwal: Like this year we have acquired Blue Coat so if we exclude the top-line accretion from that acquisition which means that the slowdown is much more so in that context is the category of adhesive as such is slowdown or are we facing more competition so how is the situation like in the category?

Sandeep Batra: So your point is right that if you adjust for the effect of these acquisitions our like to like growth rates may be lower but that may not be a very strict way of comparing but yes certainly these results would have some benefit of the acquisitions that we made particularly Blue Coat that we acquired last year. But it is not that I think the slowdown that we are seeing is overall and across all our categories.

Avneesh Agarwal: But sir what would have been the contribution of Blue Coat in the current year?

Sandeep Batra: Those turnover numbers I am not at liberty to share.

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

Harsh Mehta: I have three questions, first is on VAM. What would be the average VAM rate for the company for the 4th Quarter?

Sandeep Batra: Overall 4th Quarter would have been 1000-1050 kind of levels.

Harsh Mehta: And the 3rd Quarter the average VAM as you had mentioned was around 1350 odd level so in the 4th Quarter it was around 1050 and again the VAM has started trending up post the 4th Quarter because as you mentioned in the opening comment, it is sub-1100.

Sandeep Batra: Yes.

Harsh Mehta: So do you think because also if you move from 4th Quarter to 1st Quarter the currency movement has also been adverse and VAM prices trending up so do you think that you gave your view for the 1st Quarter this year that is FY16 but do you think that the gross margin expansion would be sustainable going ahead or it would be more led by premiumisation and pricing them the raw material price cut.

Sandeep Batra: I think we should not look at it from the point of view of gross margin expansion. I think the way to look at it is the absolute gross margin because it's not that our margins for the entire year ‘15-16 could be higher by 500 basis points over same period last year. I think if you look at the absolute margin and see how that will track and perform given what will happen to commodity cost and what will happen to currency and of course improvement in that as a function of product mix, as a function of selling higher margin, faster growth in higher margin products that's always been our desire whether I'm able to quantify it at this moment, no.

Harsh Mehta: You had indicated during the last con-call that you have taken price cut in your industrial business. So with industrial business de-growing do you further plan to cut down your prices because of competitive intensity the business is taking share or you would hold your prices in industrial business as well.

Sandeep Batra: It would depend on customer-to-customer, product-to-product. Industrial product is certainly more competitive than the consumer and bazaar category so if there are product segments where competitive intensity is high and we believe that that business is something that we would like to be in we would certainly then have to match prices.

Harsh Mehta: Sir has there been any recent price cut in industrial basis?

Sandeep Batra: The rises in industrial are all customer specific, product specific so it is not that there is a list price which we reduce and that's why I can tell you that we have dropped prices by X% or Y%. It is very-very customer specific; it is something which changes on a month-to-month basis. But the fact that in industrial product in the 4th Quarter our margins have increased to the extent that they would suggest, it's not that every cut in or every drop in raw material rates gets passed on. It doesn't work like that.

Harsh Mehta: One last question on the overseas business and please correct me if I'm wrong. You've mentioned that your constant currency growth, organic constant currency growth in the overseas business is 10%.

Sandeep Batra: Yes.

Harsh Mehta: Sir what would be the reported number for the same?

Sandeep Batra: The report will be about 22% because as I mentioned one is the translation effect and the other one is that in Dubai we have taken over into our subsidiary the distribution of Pidilite products in that market which hitherto was been done by a third-party distributor so that has also added to the turnover of the subsidiaries but in the consolidated numbers that get eliminated.

Harsh Mehta: Thank you so much.

Moderator: Thank you. Our next question is from the line of Sudheer Kedia from ASK Investment Managers. Please go ahead.

Sudheer Kedia: Just two questions, one you said excise duty is going to increase from 6% to 7% on a blended basis, what kind of impact it can have on the gross margin and the operating margins?

Sandeep Batra: Overall excise duty as a percentage will increase. Now we will have to look at how we can restructure the distribution in the sense that we can minimize the impact. But other than that 1% increase in excise duty we can easily work out what the impact of that will be on the results. But keep in mind that the excise duty impact whatever I mentioned of 1% will not happen throughout the year. It will start when the plant completes its 10 years unlike in income tax where the higher tax rate will applied from 1st April itself. In the case of excise duty it will happen on the 10th anniversary of the setting up of the plant.

Sudheer Kedia: Which will be sometime in the mid of the year?

Sandeep Batra: There is one plant which is already completed 10 years in this month, one will complete next month, one will complete in February next year.

Sudheer Kedia: During the call you mentioned that your margins will maintain in Q1 as in Q4 if I heard you right so you were referring to gross margins or operating margins?

Sandeep Batra: No I was not saying that we will maintain, I was referring the gross margin. I was not saying I will maintain, I was only responding that the gross margins that we have in 4th Quarter is the 1st Quarter margins would more likely than not represent those margins given the fact that there are no major changes either in input cost or in currency.

Sudheer Kedia: Can you give us a sense in terms of what kind of premium will we have in the retail segment I mean to say B2C segment over our nearest competitor and at what level of a premium do you think that you will invite unnecessary competition?

Sandeep Batra: So the premium if you look at particularly for white glue which is the Fevicol range of products, our products will be about 10% premium to competition and that has been the trend now for several years.

Sudheer Kedia: The competition has also that taken a price decrease since you have not taken a price decrease. They will follow you, right in terms of competition.

Sandeep Batra: Yes.

Sudheer Kedia: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Patki from Himalayan Fund. Please go ahead.

Rohan Patki: I just wanted to get any guidance or any sense of guidance for the next couple of quarters that something you provide.

Sandeep Batra: No as a company we don't provide any guidance.

Rohan Patki: On that same line of question from the overall story does appear to be that we have a decently I mean quite a good FY-15 with the exception of the last quarter where across all lines where the significant drop in sales and consequently profits. So how common is this, how frequent is this, are you surprised at all?

Sandeep Batra: No first of all we haven't had the drop in sales, our sales growth has been much lower than our historical numbers and at least I did a quick look, at least if you look at pure growth for a quarter we have and seen this kind of growth at least for at least for the last now 5-6 years so certainly it has been much below our expectations and much below what the historical trends are. We did see a slowdown coming in the 3rd Quarter where the top-line growth was only 12% that has further decelerated in the 4th Quarter. But the overall economic environment certainly remains challenged and unless that improves we don't see that number going back to what we have been historically used to growing.

Rohan Patki: What triggers would you see or what sort of indications would you look at?

Sandeep Batra: **W**e know that IIP number has been very modest, the GDP numbers one can't comment because the new numbers are totally different from what one has been used to see. So certainly I am not able to comment on what leading indicator will lead us to believe a different growth number other than what most of us see as the index of industrial production, the industrial output in India once that starts improving then yes certainly we can see a revival.

Rohan Patki: In your consumer and bazaar segment are there any trends you noticed that some fundamental shifts overall and are you adjusting accordingly or is it all pretty much business as usual?

Sandeep Batra: No there is no such secular trend that we need to readjust our approach in the market to our focus as all along been not to get so much influenced or swayed by what is happening in the economy, we have all along believed that we create demand for our product, our products are all innovative meant to address latent needs of customers and we need to therefore reach out and create a market for our products and that's what we will continue to focus on.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I have just one question on the acquisitions you have been doing, for the last two years you have added you have done two small regional acquisitions. Now when you look at these acquisitions, what is it that we are looking at I mean is it that we have a gap in that region so we acquire a brand which is strong in that region or we are trying more product lines and how do we manage these brands along with Fevicol because Blue Coat itself is a separate brand which gets marketed separately so how do we handle these brands within the portfolio?

Sandeep Batra: We will have to having acquired the brands the idea is to first integrate them so that you don't lose any value. But generally going forward we will have to chalk out which brands will be part of our portfolio and in which position will brands like Blue Coat or FALCOFIX which we had acquired the year before where will they fit, the reasons of course we bought them which was because of the market position that these brands had in the select geography and the kind of proposition that these brands had in select influences. The idea is to capitalize, learn from them, and also transmit some of our best practices to these businesses which is what we have been doing.

Gunjan Prithyani: But it is more to fill the regional gaps where we think that certain brands are more stronger than Fevicol brand.

Sandeep Batra: Not necessarily limit them to a regional, initially is they may be limited to the region in which they were strong but going forward these brands could well be a part of our national portfolio.

Gunjan Prithyani: So you basically extend I mean launched those brands in newer markets as well.

Sandeep Batra: I think that would depend upon what brand architecture we finally draw up, what is the brand strategy for each of the product, each of the brands in that segment.

Gunjan Prithyani: But it is not really to add a new product line or product segment which we do not have in construction chemical or in the adhesive?

Sandeep Batra: It could be that also. I was specifically referring to Blue Coat and FALCOFIX, they are not new products that we brought, we have bought these brands and their distribution and their market share but yes in construction chemical if there are products or technologies that we don't possess we will certainly look at the acquisitions in that.

Moderator: Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Asset Management. Please go ahead.

Manish Poddar: Just wanted to clarity actually you mentioned that the gap between the rural and urban the ratio is same so that means rural is growing with a slower rate compared to urban, is that right?

Sandeep Batra: Rural has been growing faster than urban for us.

Manish Poddar: No as the rate, let's say it was growing at 9% and urban was going at 6 the ratio is 1.5.

Sandeep Batra: Yes. The ratio has been maintained.

Manish Poddar: That means now if the rural is growing at 7.5, are one is growing at 5 so the gap is actually narrowing?

Sandeep Batra: Yes of course.

Manish Poddar: Any trends you are seeing in the month of April?

Sandeep Batra: No I will not be able to comment on April or May or current performance.

Manish Poddar: Just wanted to get an outlook for your international business, any update on that?

Sandeep Batra: No outlook as far as international business is concerned. I mentioned the way the performance has been so overall losses have come down particularly in Brazil. But keep in mind other than the US economy which is showing signs of improvement which is where our big international business is, the other big business that we have is in Brazil and Brazil economy is even more challenged, several sectors are having pressure, construction as a sector to which our products get used in is likely to decline in this year. So the environment in Brazil is certainly far more challenging than what it was this year. But we have taken lot of actions there to reduce cost significantly and the benefit of that cost rationalization we will see for the full-year this year.

Manish Poddar: How much is the capital invested in this Elastomer project?

Sandeep Batra: About 360 crores.

Manish Poddar: Is there a particular timeline wherein we are looking to because I think this project has been up for quite a long now so do we have a particular timeline for this project?

Sandeep Batra: There is no timeline in that sense but I think we certainly will not be able to wait indefinitely till we take a call on it but we certainly don't have a deadline in that sense.

Manish Poddar: Thank you.

Moderator: Thank you. The next question is from the line of Avneesh Agarwal from Prabhudas Lilladher. Please go ahead.

Avneesh Agarwal: I have just one housekeeping question, what is the amount of our investments in mutual funds, bonded sector at the end of the year?

Sandeep Batra: About 400 crores.

Avneesh Agarwal: And in the balance sheet which you have given I think the current investments are 269 in standalone.

Sandeep Batra: Yes there will be other lines where this number is shown.

Avneesh Agarwal: Sir can you please guide us which other lines are there?

Sandeep Batra: So there is current investments that is there then you have cash and cash equivalent.

Avneesh Agarwal: So it is the sum total of all?

Sandeep Batra: Yes.

Avneesh Agarwal: 400 crores in total.

Sandeep Batra: Yes.

Moderator: Thank you. That was the last question. I now hand the floor over to Mr. Ranjit Cirumalla for closing comments.

Ranjit Cirumalla: We thank all the participants for joining for the call. Over to Mr. Sandeep Batra for any closing comments.

Sandeep Batra: Thank you very much and I thank everybody for taking time out for the call and for their continued interest in Pidilite. Wish everybody a good day. Thank you.

Moderator: Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.