



**“Pidilite Industries Limited 2QFY16 Results
Conference Call”**

October 29, 2015



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PIDILITE INDUSTRIES LIMITED**

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Moderator: Ladies and gentlemen, good morning and welcome to Pidilite Industries' 2QFY16 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 the 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 Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you, sir.

Rakshit Ranjan: Thank you, good afternoon everyone. Welcome to the results call of Pidilite. We have with us on the call Mr. Apurva Parekh - Executive Director at Pidilite. I will now hand the conference over to Mr. Parekh to give an overview of the performance for the quarter and then we will open it for Q&A. Over to you, sir.

Apurva Parekh: Thank you, Rakshit. Good afternoon, everybody. On a consolidated basis our sale grew by 5.2% in this quarter. Due to reduction in raw material cost there was a significant expansion in gross margin. Due to this expansion in gross margin our EBITDA profit grew by 46% and profit after-tax for the quarter grew by 40.5%. Consolidated result for this quarter also includes the results of Nina Waterproofing Systems Private Limited. We had acquired this business in April 2015. On a half yearly basis our consolidated sales grew by 7.3% and EBITDA profit by 44.4%. Profit after-tax grew s 37.4%.

Moving onto segment performance: For the quarter, our Consumer & Bazaar business grew by 5.2% with segment profit growing by 38%. During this quarter our industrial business sales declined by 9%. However, due to expansion of gross margin and focus on higher margin products the profit of this segment grew by 38%. For the half yearly basis our Consumer & Bazaar business revenue grew by 6.4% and profit grew by 36%. For industrial products, owing to the reason mentioned earlier, our revenue declined by 4% but the profits grew by 64%. So overall our sale growth was less than expectation. However, our profit growth was much better than expectation. With respect to our overseas subsidiaries, many of our overseas subsidiaries did much better in the first quarter and first-half of the year. Our subsidiaries in Bangladesh, Thailand, and USA performed better and had healthy growth in profits and reasonable growth in sales.

Brazil continues to have difficult economic conditions with sharp depreciation in currency. But due to various cost reduction initiatives we have been able to reduce losses in the Brazilian subsidiary. The only other subsidiary making loss is the one in the Middle East where we incurred some losses due to higher SGA expenses. These are expenses we have incurred in terms of hiring some people to drive future growth. Our subsidiaries in Bangladesh and Thailand



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continue to perform very well with very good growth in sales and profits. So in a nutshell we had moderate growth in sales but profit growth was very good due to significant expansion in gross margin aided by reduction in raw material cost.

So this concludes my opening remarks. We can take questions now.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on domestic demand. Sir, what is the volume growth this quarter?

Apurva Parekh: Volume growth for this quarter is about 1%.

Abneesh Roy: And sir, what is your assessment I understand you have much higher exposure to urban consumption and urban consumption continues to be a huge challenge. But why in the last two quarters - three quarters your volume growth has come down from almost double-digit to almost now a single almost flattish growth. When do you see a recovery sir, what are the data points which will make recovery really happen for you?

Apurva Parekh: Some of our sales growth has partially been affected due to industrial products. If you see our industrial product segment, sales value has declined and within industrial products, we find sales from supply to segments catering to the export market have come down more sharply. Among products like Leather Chemicals and some Industrial Resin, sales have come down. Also in our Consumer & Bazaar business, some of our volume growth has come down due to our phasing out or reducing focus on some of the lower margin products. Our higher-margin products including our flagship products or our bigger products have performed better than our overall growth rates. Yet, the growth rates are less than the historical growth we have seen, When will we see recovery? It is difficult to say when we will see recovery or the data points that we track. Generally, in the past we have looked at GDP and while we have performed better than GDP, most of the time however, in the last few quarters, it has been a little difficult to see that the economy and the growth that we see of our peers is not in line with the GDP growth. So we continue to do what we think is right in terms of both creating demand for our products and to increase market share where necessary. But I do not have any set of data points which I can say conclusively would indicate revival of demand growth.

Abneesh Roy: Sir, some follow-up questions here. This 1% volume growth is in Consumer & Bazaar domestic or is it for the total domestic business?

Apurva Parekh: It is for the total domestic business.



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- Abneesh Roy:** So my question was sir for Consumer & Bazaar domestic what is the volume growth?
- Apurva Parekh:** It maybe more or less 3% to 4%.
- Abneesh Roy:** And you have not cut prices this time unlike the previous down cycle and could there be some loss of market share to the unorganised players, small players do you see that which is coming from your sales team that some loss of market share might have happened because of such high gross margins they would have cut prices but you have not cut price?
- Apurva Parekh:** No. We have not lost market share but in some products we have increased rebates or we have made some adjustment in prices. We have not done any across-the-board adjustment in price but we have done some adjustment in prices.
- Abneesh Roy:** And are you able to quantify that adjustment? The rebates et cetera?
- Apurva Parekh:** No, I think because of our portfolio which is very wide, it is difficult to quantify that.
- Abneesh Roy:** And sir, I was very surprised you have seen almost multi high margins definitely why you do exit some segments when your margins are at multi-year highs, I could not understand that part.
- Apurva Parekh:** I did not say we have exited but we have reduced focus and yes, we may have discontinued some products because we want to focus on products where we have a strong position, where we have pioneering position, where we believe that we can drive growth. So in our wide product portfolio we do need to make choices of where we want to put greater focus and thrust. So clearly some of our products where the margins are less or we believe we do not have very strong position we have reduced focus and in some cases we have even discontinued some products.
- Abneesh Roy:** Sir, could you give some examples for better understanding.
- Apurva Parekh:** I would not like to give it for competitive and other reasons but you know that we have a very wide product portfolio but it would not be right for me to really go into details of that.
- Abneesh Roy:** Sir, my second question is on Nina we do not have any numbers as to judge how Nina has done. Of course the difference between consolidated and standalone is a very healthy number. So could you take us through how Nina has done, have we expanded to new geographies in that, how are the margins there, are you investing into people there.



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- Apurva Parekh:** Yes, the Nina acquisition is fairly new because it has been less than six months since. Nina has been with us since April 2015. So in first-half of the year, Nina has done sales in excess of 70 crores.
- Abneesh Roy:** So what is the growth sir?
- Apurva Parekh:** The growth is not comparable because in the previous year it was not with us so we do not have the figure but it would be upwards of 10%-15%.
- Abneesh Roy:** And have you expanded to new areas in this?
- Apurva Parekh:** Yes, we are expanding but first six months has been a period of consolidation. We have reasonable profitability in this business and we will slowly and steadily expand. But since it is a new business, we want to first consolidate, understand it well, integrate it with us and then start expanding it in other regions of the country and in the existing region in terms of higher penetration.
- Abneesh Roy:** Sir, my last question how much was the excise impact I understand some of the areas would have come out of excise free-zones what was the impact on the sales?
- Apurva Parekh:** I do not have the exact figure but I would say it would be about 0.5% to 1% of revenue.
- Abneesh Roy:** Will it increase in coming quarter or there is a run rate we should take?
- Apurva Parekh:** Increase in terms of excise benefit going away?
- Abneesh Roy:** Yes, excise impact. So excise impact you said 0.5% to 1% so can it increase? Is this the run rate?
- Apurva Parekh:** No, we still have some units which are currently enjoying the excise exemption. Over the period of next three to four years we have another three units or four units which will go out of exemption.
- Moderator:** Thank you. Our next question is from the line of Ruchi Vora from CLSA. Please go ahead.
- Ruchi Vora:** My first question is can you give us a quick split on the volume and the value growth for Consumer & Bazaar products and industrial product segments?



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Apurva Parekh: For the half year period on a standalone basis, our Consumer & Bazaar business has grown by 6.4% while our industrial product sales has declined by 4.3%. So this is the segment wise split on a half yearly basis in value. The volume growth would be about 2% to 3% less than this.

Ruchi Vora: Understood. So the follow-on question is that I just wanted to understand your thought process in each segment. To what extent do we need to pass on commodity price decline to the end consumer? I am assuming our price sensitiveness would be higher in the industrial products. So can you throw some color on that talking about the Consumer & Bazaar product segment and also on the industrial side how do we look at passing on the commodity price decline.

Apurva Parekh: There is a greater need to pass on the price increases and price reductions in Industrial Products. However, there is always some time lag and there is always some improvement in margin when the raw material prices go down. So, despite the decline in sales our profitability has expanded significantly. This is also aided by product mix improvement which I covered earlier that we are continuously focused on remaining and growing in segments where we are strong, where we have pioneering position and where we can earn decent margins. As far as Consumer & Bazaar product goes, it is a product to product decision. However, in general, in Consumer & Bazaar we do not have to hurry unless we find that price reduction is very significant and there to stay for a very long period of time. So, once the reduction is very sharp and remains for a very long period of time and then if we believe there is a reason from competitive and other nature, then we make some price adjustment.

Ruchi Vora: But given that now your segments are so niche, can you throw some light on how does competition behave. Let us say if crude and VAM continues to remain at low levels. Historically how has the competitive environment shaped up in terms of pricing, discount, rebates alternatively? So can you give us some examples or can you throw light on how this has shaped up historically and what is happening now?

Apurva Parekh: For example, in our Consumer Products business there is not much competitor activity, so there is not much price pressure. However in some of our Bazaar related products, whenever there is a reduction in crude or input costs, the competitors do increase their discount, rebates or they even reduce their prices. But, in many of our product categories, we have a strong brand, we have excellent products, we have very good customer service and hence, we are able to maintain a reasonable price premium. But, we do this in a very judicious manner and if we believe that price reduction is very large and there to stay for a long period of time and then we believe there is need to adjust prices so as not to lose market share. But to answer your question, certainly our competitors reduce the price to increase their market share and we look at that very closely and product to product we take decisions of where to adjust our prices.



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Ruchi Vora:

Okay, sir last question if I may squeeze one is can you throw some light on what are the new launches I mean what is your strategies on Adhesives, Seal and Construction, Paint Chemicals and Art Materials and others in terms of let us say new product launches SKUs, promotions, can just throw some colour on that?

Apurva Parekh:

Sure, I will cover a couple of large product categories that will give you an idea. For example, Fevicol Wood Working Adhesive, which is a large category, we have introduced a number of premium products which are very superior and which are value added. Earlier we use to sell Fevicol which was a white glue of very high quality, very consistent quality. Then we upgraded to bring a product called Fevicol Marine. This Fevicol Marine product gives it a very good waterproof ability and that product we had advertised and it became very successful. Now, we have upgraded and brought a new product called Fevicol Hi-Per, which is a very high quality wood working adhesive with a lot of advantages to the carpenter, contractor and also households.

Also we have come with another product called Fevicol HeatX, this is very fast setting adhesive but with very good heat resistant properties. So, in our white glue portfolio, we have Wood Working Adhesive which is our largest business, we have introduced several products to upgrade our product portfolio. Also, there is increasing trend of the furniture being made in factories so, we have come up with a set of products which are suitable for B2B manufacturing of furniture. We have a set of products which are developed and continuously upgraded as the substrates change or the practices change. In our Waterproofing Chemical Business, we continuously add new products. We started from products which were simple cement admixtures to a number of other products which are for gap or crack filing and also products which are for terraces, roofs and a lot of different applications. We came with a product which can reduce internal temperature, so we came with coatings which can reduce internal temperature or coatings which gives us very high waterproofing capabilities. So essentially in all our core product categories, we continuously understand the customer requirement and try to bring new products which are useful to the customer, which would add value and which would allow us to also upgrade our product portfolio.

As far as products like Art Material or Consumer Adhesive, we continuously keep on adding new products or new SKUs. For example, for stationery, Fevicol, which all the kids use, this year we came with a new product called Fevicol Power which is a much faster setting Fevicol which will make the craft work even faster. We have just launched another new interesting product called Fevistik. Here we have introduced a new product first time in the world, which is a glue stick cum highlighter. This is a very good innovation from us which is under launch. So, in almost all products category, we have a robust portfolio which are either under development or under launch. I hope that answers your question.



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- Moderator:** Thank you. Our next question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.
- Anshuman Atri:** My question is regarding this B2B which you have talked about the furniture. So is the margin similar to what we are getting in the retail?
- Apurva Parekh:** The margin would be little bit less than retail.
- Anshuman Atri:** Okay. So volumes would offset for the margins. It will be higher volume gain for I guess...
- Apurva Parekh:** As of now it is a smaller segment than retail but as it grows we have to be there and we also have to find a way to earn better margins. But it is a reasonably good business.
- Anshuman Atri:** Okay. And the plywood makers are talking about further weaker environment in the second-half so, how do you interpret this market for Fevicol in the second-half?
- Apurva Parekh:** See as I said as of right now we are seeing that for last few quarters it is very difficult to predict demand and predict the market situation so, we believe we are continuing to do what things we believe are right both in terms of creating market or to filling up any gaps or weakness that we have. So we currently focused on that and we are not too worried about how the market growth happens and we are finding it difficult to predict. It depends on number of factors which are not all in our control.
- Anshuman Atri:** Okay. And lastly if I could ask is on the margins. Can we expect similar margins to continue over the next two quarters given we have not taken any price cuts?
- Apurva Parekh:** If you look at EBITDA level margin it also very significantly depends on the kind of revenue growth that will again and the amount of spend that we do on advertising and other things but we expect the margins to remain good at least in the short term which is one to two quarters whether it is little higher to lower it is difficult to predict but at least in the short term we expect the margin to remain good.
- Moderator:** Thank you. Our next question is from the line of Abhijeet Das from Dion Global. Please go ahead.
- Abhijeet Das:** My question is on the volume front if I am not wrong sir, you have told in the H1 the volume growth was around 2-3%. So how do you see H2 on the volume front? And on the second question, my second question is on global performance how you see the overseas subsidiaries to perform in the H2?



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- Apurva Parekh:** As I said, we do not give revenue guidance so I would not like to say what would be our volume growth in the second-half of the year. We are looking at the current economic scenario and we are seeing that the growth is less than our expectation and hence we are focused on doing number of things to expand the demand of our products or to correct any weaknesses or gaps that we have which would help us improve our market share. So I cannot give you guidance but we are focused on improving our growth rates. As far as international subsidiaries goes, we have several subsidiaries which are doing well and which we believe are in the right position like Bangladesh, Thailand, and USA. These subsidiaries are performing now well on a consistent basis and we do not see any reason why that would not continue. Brazil is in a difficult situation. We have taken a lot of efforts to cut expenses and to improve productivity and other things however, the economic scenario continues to remain very difficult and hence it is difficult to predict performance on Brazil however we believe that other subsidiaries should continue to perform reasonably well.
- Moderator:** Thank you. Our next question is from the line of Atul Tiwari from Citi Group. Please go ahead.
- Atul Tiwari:** Sir, mentioned that in the quarter the domestic Consumer & Bazaar volume growth was 3%. What was the growth in the domestic industrial business in volume?
- Apurva Parekh:** You asked for the quarter or for the...
- Atul Tiwari:** For the quarter.
- Apurva Parekh:** For the quarter I do not have the break-up of domestic and export for industrial but our segment revenue have declined by about 9% and I will say...
- Atul Tiwari:** I meant standalone business, I need not be only for the domestic market but in standalone business the industrial segment what was the volume?
- Apurva Parekh:** Industrial revenue declined by about 9% and the volume growth would be in that vicinity, maybe plus-minus 1%. But overall the revenue in value in industrial decline by 9% and again within our industrial segment we have some products segment which have done well and some products segment some of which are have greater dependence on export we have not done so well.
- Moderator:** Thank you. Our next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir, we have seen Pidilite now at least in last two recent cycle when one was the time when VAM prices were going through the roof and that time also our price sensitivity or riskiness to take price hike was slightly lesser than expected and that time also we wanted to first establish the



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trend and then only take the price so that we do not have to reverse the price hikes. And this time also surprisingly when all the main players have been quite responsive on quick response on cutting prices again we are actually taking our time to establish the trend and then only take the price cuts once we are sure of the trend we will remain like this. So I just wanted to understand is competition at large is this rational or they take this opportunity in between to gain market share and how do we respond to that kind of challenges?

Apurva Parekh:

Going back, last year the increase in VAM price was very fast and was significant. So the prices of VAM had gone up from \$1,600 to \$900 in a matter of few months. So the price increase was very fast and a very significant amount and we did increase our prices. So for some of our products which were affected by this increase in VAM we did take couple of price increases last year. So that was done last year but obviously we cannot pass on that entire price increase at the same pace that the input prices go up because that could not be judicious or wise, but we did increase once we thought that this price increase is there to say.

However due to global macroeconomic factors the reduction has been also equally sharp. So as I said earlier we have made some adjustment in prices where we felt it was necessary. So in certain product segments we did realize that price adjustment is necessary and we did some price adjustment. What I said earlier is that we have not felt the need to make an across-the-board, kind of a price adjustment. So let me assure you we look at this very closely and as and when there is a need we do take action. As far as competition you said certainly they will take advantage of this and they do reduce their prices. However, we believe that in most of our products we have a strong brand name and we have a strong product proposition as well in terms of our distribution, service, product and the number of variants, we have a unique and a strong position.

Tejas Shah:

Fair enough, sir. So in this price volume arbitrage game what is your monitoring point? Is it market share you are more focused on or is it so for example perhaps not comparable but in Paints we have minor 2% price hike is at least assuring them a high-digit volume growth for most of the players. So would you be more comfortable playing that game or you will be more focused on market share and accordingly you will take this pricing call?

Apurva Parekh:

So obviously, the market share is important so that is a key criteria but also if we believe that there is an evidence that by making some price reduction we can achieve significant growth in volume then also we may consider that. So we are open to all the option, the only thing is we do not like to do something kneejerk or to achieve some kind of number on a short-term basis. We look at market with a medium to long-term view and we believe that if there is a justification



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there is a need to make certain adjustment in prices we will do that but it is not as easy or as unidirectional as paints.

- Tejas Shah:** Sure. And sir, lastly couple of bookkeeping questions. What was the VAM prices currently for the quarter?
- Apurva Parekh:** VAM prices have been changing but I would think that in the last quarter it may have been about \$925-\$950 something in that range.
- Tejas Shah:** Okay. So they have essentially come down by 50% in one year.
- Apurva Parekh:** I think last year I think it has peaked to 1,600 or so.
- Tejas Shah:** And sir, what is the Capex plan for this year and next?
- Apurva Parekh:** Capex in a normal course last year we spent 170 crores. I think in normal course not counting any acquisition or inorganic like the Nina business that we acquired in the first-half, our capex should be around the same figure.
- Moderator:** Thank you. Our next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit:** Just a couple of questions. One on the Consumer & Bazaar you indicated close to around 3% to 4% kind of volume growth. Would it be fair to assume that the Construction Chemicals segment would have witnessed a decline since our overall growth in domestic was only 5% just an indication.
- Apurva Parekh:** No. Our Construction Chemicals business as performed equal or slightly better than our overall Consumer & Bazaar growth.
- Amit Purohit:** Okay. And secondly sir, I visited your stall at the Acetech and I congratulate you it is a very decent well put up kind of thing I wanted to check you have talked about in that one of the movie that you were showing Dr. Fixit experience center. So what it is actually I could not understand. Is that number of what is that outlook on that?
- Apurva Parekh:** No, this is a center which we have currently set-up in Chennai and this is a center where we invite architects, contractors, builders to showcase our product portfolio in this segment in a manner in which they can really see the products how they are used, how they are applied what are the benefits. So it is a well-designed experience center in Chennai and these are the large



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users or key influencers and the whole objective is to showcase to them our product portfolio in a right manner. Little bit like what you must have seen in Acetech, our effort is to show more the application and usage of product rather than just showing the product by itself.

Amit Purohit: So, is it fair to assume I mean this will be happening in across cities in terms of retail?

Apurva Parekh: Yes, the direction would be to open more of them but it will depend on Chennai, how does it grow and what is the response. But this not like the retail store to sell anything. This is just to showcase our products.

Amit Purohit: Okay. And lastly, I just want to understand on your B2B that you talked about. So at this point already there are companies which would be doing furniture work and all that so Fevicol was anyway going into those or somewhere Adhesive would be going. So this specifically targeted or a separate marketing initiative or the product itself is different how?

Apurva Parekh: No, there is some variation on product because it again depends on when the Fevicol is made in factories. There are different type of factories, some are more automated and some are semi-automatic. So there are different type of factories using different kind of substrates and different kind of adhesives. So it is a market which has a number of products and number of different types of applications. So essentially what I was saying is that again we have worked towards it, developed product for all the different types of end users.

Amit Purohit: So this would the end user likely to one who are making furniture, right?

Apurva Parekh: Yes, they are making furniture, it could be a small unit which is set up by a contractor to a very large, very sophisticated joinery. So it is a very wide range of different types of places where furniture is made offsite.

Amit Purohit: And do we require a separate marketing team or it is not that critical at this point?

Apurva Parekh: No, it does require slightly different route to market and we have a lot of capabilities and we keep on continuously upgrading them.

Amit Purohit: And lastly on the raw material I mean it is difficult to predict I mean what is the sense like you believe that will remain stable at these levels for?

Apurva Parekh: Last year when it was 1,600 if anybody would guessed that we would be at this level...



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- Amit Purohit:** Yes. But you indicated at that time there were capacity shutdowns and that was also added to it. So now I am trying to understand whether.
- Apurva Parekh:** I think we never indicated that and I just said nobody could have imagined we would be at this level. But to be honest, we do not have a clear indication. It would dependent very significantly on crude. In case of VAM, there could be temporary swings but also on a medium on long-term, it would depend on the oil and petrochemical prices. So if they remain low, then the price may remain low.
- Moderator:** Thank you. Our next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** Sir my first question is as far as the international business is concerned if you could probably help us with the organic growth rate or probably the constant currency growth rates for these international geographies?
- Apurva Parekh:** Yes.
- Prashant Kutty:** First half of the quarter.
- Apurva Parekh:** Okay. For our first half our organic growth is about 13% at constant currency.
- Prashant Kutty:** And could we have a geography wise break-up, as to how are they?
- Apurva Parekh:** We will be sending out investor letter. It would be in our website in few hours if it is not already there and it will give you break-up geography wise.
- Prashant Kutty:** Okay. But qualitatively which is the geography which you have done well?
- Apurva Parekh:** Qualitatively which has done well the most is South and Southeast Asia followed by North America. So Middle East South America have not performed so well, they both have lost some money but North America and South and Southeast Asia both have done well.
- Prashant Kutty:** Okay. But Brazil it is still the currency challenge or is it also demanding?
- Apurva Parekh:** Both. Currency has stabilized a bit means after depreciating from around Real 3 to a dollar all the way up to 4.3 in a very short period of time, it is now stabilized at around 3.85-3.95. So it has slightly corrected after sharply depreciating in a short period of time.



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Prashant Kuttu: Okay. And as far as the margins in international businesses are concerned obviously that also has seen further improvement trajectory we do understand there is a lot gross margin angle to it as well but incrementally how do we see the margins for the international business also going?

Apurva Parekh: In the international business, the profitability has significantly increased during this period. Overall our EBITDA improvement especially in North America South and Southeast Asia has been very good. And on an overall basis also our profitability has improved significantly.

Prashant Kuttu: And we typically would expect this trend to at least remain at least be stable over here.

Apurva Parekh: These are smaller companies, so more difficult to predict but as I said earlier our subsidiary in Bangladesh, Thailand, USA some of these are doing well on a consistent basis. So we have no reason to say that it may not continue at the same pace. They should continue to perform reasonably well.

Prashant Kuttu: Okay. And as far as the domestic business is concerned sir, if you could probably give us some qualitative comments on the Consumer & Bazaar segment as to how these 3 segments have done. We do understand you highlighted about the new product and the product innovation which is their which seems pretty robust but if you could otherwise also highlight us to how has been the overall demand scenario specifically for these segments at least a qualitative assessments.

Apurva Parekh: Qualitatively, as I said earlier, our industrial product sales had declined by 9% for the quarter or 4% on a six-month-basis. So in industrial also, we have seen that there are certain segments which are more export oriented so, our customers in those segments, the sales to them has come down so possibly their demand has come down. So some segments which are very export oriented, our sales to those segments have impacted our overall growth. Some of our segments like textile, chemical and others have done reasonably well. So it has been a mix of some segments performing as per expectation and some not. As far as Consumer & Bazaar goes, overall, for most of our segments we have seen that the growth is lower than say a year earlier. But within that, as I said, some of our good brands, our premium products, have done well and the sale of some of the products where we do not have a strong market position where either we have reduced our focus we may have discontinued or we may have lost some share. So in Consumer & Bazaar again, I would say overall growth have come down across most of the products and segments. However, some of our key product brands have done reasonably well.

Prashant Kuttu: And what we would believe probably would be a would kind of say okay the demand seems to taking the right moment what are those levers that we are looking out for?



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- Apurva Parekh:** The levers are very difficult to predict. As I said, in last few quarters, it appears that not just Pidilite but a number of companies are not growing as per even the GDP growth so, essentially this appears to be a little unusual period. So it is very difficult to say that what will change or what will happen or which indicator would start saying that we should start growing now. We remain continuously focused and even if the market continues to remain slow, we want to focus on expanding the consumption of our products because we believe that is still a significant potential but I do not have any indicator to say when and what will tell us that the market is improving.
- Prashant Kuttu:** Okay. And lastly sir has there been an increasingly promotional intensity as far as the consumer segment is concerned probably in terms of trade margins and probably in terms of any kind of promotional intensity towards the trade?
- Apurva Parekh:** We have done a little adjustment in trade margins. As I said earlier, in some products, on a case-to-case basis, we have increased rebates or discounts. But that is not an across-the-board thing. As far as our advertising and promotion spend goes, it was lower than last year for the first six months. But this is mainly due to timing difference and we have just launched some new advertising campaigns for the month of October. So in the first-half, the spend was less than last year but mainly due to timing difference.
- Moderator:** Thank you. Our next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.
- Manish Poddar:** Will be the pricing premium which Fevicol had roughly about 8-15% for different products? Does that still sustain or that has gone away?
- Apurva Parekh:** No, we continue to have that kind of price premium. There has been no change in that.
- Manish Poddar:** That has been intact. And our market share in this quarter are also intact, right?
- Apurva Parekh:** Well generally yes, there has been no significant difference in our market share to our knowledge. Our category is not tracked by any third-party agency but to our knowledge we do not believe there has been any significant change in market share.
- Manish Poddar:** Okay, that is great. And has there been any material difference in demand in urban and rural or how you measure it internally region wise and tier wise and stuff like that?
- Apurva Parekh:** We also find that our sales in smaller population centers is growing at a faster pace than larger population centers.



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- Manish Poddar:** So is it that the 2x rate which it was growing in let us say last year has that moderated?
- Apurva Parekh:** No, I think it would not be a 2x level I would it is slightly less than that. But it is growing at a reasonably higher pace than the urban growth rate?
- Manis Poddar:** How much was the ad spends for this quarter? Ad spends as a percentage?
- Apurva Parekh:** Ad spent was about 3% of net sales.
- Manish Poddar:** 3% and are we estimating that to around 4%-4.5% for the year end?
- Apurva Parekh:** It would certainly be higher possibly in the second half of the year then the first half it could be in the range of 3.5% to 4%.
- Moderator:** Thank you. Our next question is from the line of Ritika Subramaniam from IIFL. Please go ahead.
- Ritika Subramaniam:** I just had one small question, there have been an increase in other expenses as a percentage of sales sequentially as well as Y-o-Y. Could you elaborate on reasons for the same?
- Apurva Parekh:** Increase in other expenses compare to the sales growth?
- Ritika Subramaniam:** As a percentage of sales.
- Apurva Parekh:** Yes, because other expenses have grown at about 9% which is not unusual. So as a percentage on sale it has gone up is because the revenue growth has been lower. Other expenses growth rate is reasonable at 9% in fact it is lower than our historical growth of other expenses. So increase in percentage of sale is purely because of sales growth being less than expectation.
- Ritika Subramaniam:** Are there any major fixed expenses that are included in that particular line item that you could mention?
- Apurva Parekh:** It would have things like legal and professional and it will have administrative expenditure travelling and conveyance those kinds of things.
- Moderator:** Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.



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Gunjan Prithyani: I just wanted your thoughts on the Brazil piece of our international business. Now that has been a drag for a while and I mean of course it has been because of the economy being weak but is there something we have in our mind as to we want to exit that business in couple of years or do we want to keep investing in that business?

Apurva Parekh: Currently the scenario in Brazil is such that we need to remain focused there and try to ensure that we do not incur losses. Currently, the economic situation there is fairly difficult so were open to strategic options but there is no time frame but there is no process in play at this moment. So currently we continue to remain focused to ensure that we try to run this business well and minimize the losses and hence if you would have seen that despite a very-very sharp depreciation of currency, we have been able to reduce our losses.

Gunjan Prithyani: Okay. But that is largely being driven by cost control from our end.

Apurva Parekh: Very largely from cost control yes, very much and improvement in margin.

Gunjan Prithyani: Okay. So once we are able to stabilize this business and let us say the economy show some signs of improvement are we open to looking at selling this business or we want to stay invested in that market?

Apurva Parekh: Given the current condition in Brazil, we are open for all options. We are open for any option that make sense but that would apply to a lot of our businesses or any business. But essentially we are currently focusing on improving our business situation. Currently the challenge in Brazil is to ensure that we run a very efficient company and minimize the losses. What will happen after two years we will have to take a call at after two years but certainly in a place like Brazil we have a smaller business and we will be open to strategic options.

Gunjan Prithyani: Okay. Sir one bookkeeping question in terms of VAM you mentioned that it is trading at about 925 for September quarter how much was this last quarter?

Apurva Parekh: The last quarter may have been about 1,200 or so?

Gunjan Prithyani: Okay. So it has come off sharply from last quarter levels also?

Apurva Parekh: Yes. See what would be the weighted average consumption rate my figures maybe off. What I saying 925 is probably the closing value of the inventory.

Gunjan Prithyani: So on the VAM we have seen some softening versus last quarter levels also?



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- Apurva Parekh:** Yes, we have seen, yes.
- Gunjan Prithyani:** And how do you see it trending? I mean from here on. Is it still continuing to go down in line with the crude or is it staying stable now?
- Apurva Parekh:** Yes, it continues to remain soft and there may have been or there is some reduction even after end of September.
- Gunjan Prithyani:** So it gone below 900 levels also?
- Apurva Parekh:** Yes, it appears to have gone slightly lower than \$900.
- Gunjan Prithyani:** Okay, all right. And last question just wanted to get your thoughts on the acquisition that we look. We definitely cash sitting our balance sheet which we have been deploying in these niche acquisitions. So how do we look at these acquisition will this be in the domestic Consumer & Bazaar are we looking at or specifically like we did Nina this time? So how do we look at these acquisitions in the domestic market?
- Apurva Parekh:** We carefully look at acquisitions with strategic objective or purpose. So Nina is an important business for us and we have been steadily growing our presence and our sales in this segment. But we have traditionally been a product company but we see an opportunity to expand in the services segment and hence to increase our presence and sales in this segment we realize that it would be good to get into services as well and hence then this opportunity came up after proper evaluation and we acquired it. If you recall, even last year, we had acquired another services company call Percept. So this will offer some customers who want product and services together and hence we acquired a couple of services companies so we can give this offering to some of the customers in project segment.
- Gunjan Prithyani:** Okay. We did acquisitions in the Adhesive segment last year primarily to strengthen our regional presence in certain markets. Are there any markets where you think there is a gap and we can look at small acquisitions?
- Apurva Parekh:** There would be gap in some of our product segment in some or other geographies so, we are continuously looking at opportunities and as and when a suitable opportunity comes we certainly consider. But if you are asking are there such opportunities out there, yes, there will be few opportunities. But we are very careful in terms of our evaluation and we carefully understand and try to determine the strategic objective and then go ahead and do the acquisition.



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- Moderator:** Thank you. Our next question is from the line of Abhas Poddar from Anived PMS. Please go ahead.
- Abhas Poddar:** Just had two questions quickly. One is can you please explain the margin expansion how much has the mix contributed because you are talking about better focus on higher margin products? So in the gross margin expansion what is the mix and what is the commodity benefit?
- Apurva Parekh:** I do not have an exact break-up of the gross margin improvement due to mix and raw material. But I would say mix has had fairly good contribution to that. Both have had good contribution. But I do not have the exact break-up sorry, about that.
- Abhas Poddar:** Okay. And sir, if I look at the balance sheet on the consolidated numbers, the debtors have gone up by 15%. Can you please explain why is that happened?
- Apurva Parekh:** If you see our sale also on consolidated basis has gone up by 7% so straight away the impact would be of that. And the rest would be timing difference or the nature of business like this waterproofing business that we acquired would have slightly more debtor than some of our other businesses.
- Abhas Poddar:** 7% is just the sales growth related increase some maybe timing impact and some would be the nature of the business.
- Moderator:** Thank you. Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, a few follow-ups. Middle East also you had losses and you said you have done some hiring for the distribution so could you explain how many quarter losses are still going to continue and when do you see recovery in terms of totality and both sales here?
- Apurva Parekh:** For us that is a development market I would not be able to predict when or how the losses will be eliminated. So I can tell you that we have invested in a manufacturing plant therefore our construction chemical business we have installed some new plant and machinery and we have hired some experience people. So we have done this investment and we are hoping that with investment getting into the right product we would be able to grow the business there and eliminate the losses whether that would happen in couple of quarters or longer that is something we have to see. But we believe there is an opportunity for fairly large market despite sometime ups and downs are there and hence we have made a renewed effort in that market with a new and highly experience team and with some new investment in plant and machinery. But it may take a few quarters to really start seeing the benefits of that. But we are keeping a close eye on that and we will be able to have a better update in next one quarter or two quarters.



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- Abneesh Roy:** And in that area the focus is more on Construction Chemicals, right not on Adhesives?
- Apurva Parekh:** No, in the Middle East, we have two types of businesses. One is that we also export the Adhesives from India so that we do not manufacture there but we do export and in fact we have a fairly good strong position in Adhesives business there because there all the export is done from India it is not locally manufacture. Local manufacturing is for construction chemical while at the Adhesives businesses the product exported from here.
- Abneesh Roy:** Sir, my last question is on a new competition which can become relevant in the coming years Astral have acquired a few companies Resinova, Seal it and Bond it, etc. I am sure you would be more aware. Could you take us through, do you see this as a competition from three years to five years perspective?
- Apurva Parekh:** We see Resinova as a competitor.
- Abneesh Roy:** But their market any data you can say how big is the market sir?
- Apurva Parekh:** See it will be difficult to say that market share in the overall Adhesive market that Astral may be able to better judge and say what is the market share but Resinova operates in a large number of product categories. So in individual product the market share will be different.
- Abneesh Roy:** And post-acquisition by Astral have you seen any dramatic pick-up or it is largely status-quo?
- Apurva Parekh:** We have not seen any dramatic change but I am sure they are making efforts.
- Abneesh Roy:** And sir, you are not giving individual numbers for Bangladesh, Thailand, US you said these markets have done well. What is the growth? What is the profit?
- Apurva Parekh:** In the investor letter that we have uploaded on our website, for North America we have given the figures. So if you see for the half-year period the North America revenue is about 122 crores and EBITDA is about 14 crores.
- Abneesh Roy:** First-half okay.
- Apurva Parekh:** And for Bangladesh and Thailand combined the sale is about 62 crores and EBITDA is about 15 crores, 14.7 crores.
- Abneesh Roy:** And to better understand growth numbers?



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- Apurva Parekh:** The sales figures are also given if you see for North America for half-yearly basis the sale has gone up in constant currency from about 49 crores to 62 crores.
- Abneesh Roy:** This is for Bangladesh and Thailand, right?
- Apurva Parekh:** Yes, this is for Bangladesh and Thailand. For North America it is flat at about 123 crores. But this features in our investor letter.
- Moderator:** Thank you. Next question is from the line of Anand Shah of Kotak Securities. Please go ahead.
- Anand Shah:** Sir, just had one question. For Nina Waterproofing business you said you done about 70 crores revenue for 1H?
- Apurva Parekh:** That is right.
- Anand Shah:** And is this can we analyse this number for full year? Or is there any seasonality adding 1Q would be slightly higher is it?
- Apurva Parekh:** No, there may be some seasonality but I do not think it will be significant it would not be material. There will be some seasonality but I think it should do this much revenue even in the second-half of the year.
- Anand Shah:** It should do. And sir, would that mean that if I do remove Nina Waterproofing business from consolidated numbers and look at just subsidiary your international part growth in the international business would be flat? Would that be right conclusion?
- Apurva Parekh:** The reported growth in terms of constant currency we have given so in terms of constant currency there is growth but if you see because of Brazil there the currency itself has been very significantly pull down the growth.
- Anand Shah:** Sir on a reported basis how much did Brazil do? How much it decline?
- Apurva Parekh:** I would say Brazil would have declined by about 20% on reportable basis. I do not have the exact figure but I would think that is what it is because at constant currency it is about flat.
- Anand Shah:** So you gave a number that H1 organic growth for the full international business was about 13% this is the constant currency growth?



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- Apurva Parekh:** These figures are in our investor letter I would suggest you please take a look at that. It is uploaded on our website.
- Anand Shah:** But just one number can you give me the reported growth for H1 for international business?
- Apurva Parekh:** I do not have that number readily available but I will send it to you.
- Moderator:** Thank you. Our next question is from the line of Avneesh Agarwal from Prabhudas Lilladher. Please go ahead.
- Avneesh Agarwal:** Sir, I have a couple of questions. My first question is regarding the margins in the coming quarter. Given the fact that VAM prices have been now say slightly below USD900 per tonne. How confident are you sustaining these levels of gross margins and EBITDA margins? And do you think that the margin can still go up from these levels at least for the coming two quarters to three quarters?
- Apurva Parekh:** As I replied earlier, it is difficult to predict the EBITDA margin because it very greatly depends on the kind of revenue growth we will achieve and in the current economic scenario. It is very difficult to predict the revenue growth and as a company we do not believe in giving revenue guidance. As far as gross margin goes in a very short period of time it appears that the gross margin will remain at this level or may slightly improve. However, it is difficult to predict on a longer-term because of very significant fluctuation in foreign currency, oil and the VAM. So it is very difficult to predict in today's time on a long-term basis because the fluctuations are too large and happening in a short period of time.
- Avneesh Agarwal:** But sir looking at the fact that the VAM is say around 900 USD are you looking at giving more discounts to the trade or taking some price corrections to boost the volumes in this kind of an environment?
- Apurva Parekh:** As I said, we have already made some price adjustment in our product category where we felt it was necessary and we continuously examine the situation and if you feel that making price adjustment would help us gain we would do that but we are very careful and we do this in a very judicious manner but we have already done some adjustment and we will consider more if necessary.
- Avneesh Agarwal:** Sir has there been any adjustments in brands like say Fevicol, Dr. Fixit some of the major brands or is it more in the fringe brands?
- Apurva Parekh:** In some of the major brands we have made adjustment.



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- Avneesh Agarwal:** Okay. So it like based on SKUs or in general across SKUs?
- Apurva Parekh:** It could be different means I would not like to go into so much detail this would be like really discussing the specific marketing thing which I would not want to really discuss in a lot of granular details.
- Avneesh Agarwal:** Okay. And sir, secondly can you share with us what are the margins in your Nina Waterproofing business?
- Apurva Parekh:** Currently we would not be able to share that we will do it in the next quarter,
- Avneesh Agarwal:** Okay. And finally sir just one housekeeping question what is your guidance for the tax rate for the current year?
- Apurva Parekh:** The tax rate will likely remain at the current level.
- Avneesh Agarwal:** Because in the 1Q it was 28.8 now it is slightly more than 38% last year it was 25 for the full year.
- Apurva Parekh:** Yes, so the tax rate has gone up as we covered earlier because some of our units which are coming off the Himachal Tax benefit and the tax rate should remain at 30% around that level or marginally higher than that.
- Avneesh Agarwal:** Okay. So is it likely to go up further in FY17?
- Apurva Parekh:** Yes, it may go up a little bit further, yes, because we still have three units in Himachal and one unit is going out of that Tax Holiday every year.
- Moderator:** Thank you. Our next question is from the line of Sujit Jain from Yes Securities. Please go ahead.
- Sujit Jain:** Sir, Nina Waterproofing Business what kind of eventual stabilize margins that one can expect, not exactly but if you could give a rough idea rough band?
- Apurva Parekh:** We will give you a rough idea from next quarter because we are currently still integrating the business. We have some estimate but this is too early for us to really come out and say what we would expect as a steady state kind of a margin for Nina business. But we would endeavor to make it a profitable business. We are into specialized Waterproofing and hence we would certainly endeavor to a reasonable margin. But I would not like to estimate at this stage because the company has been with us for only six months.



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Sujit Jain: Certainly. And if you could throw some light as to how would be the return on capital employed in this business? Because as you have already elaborated as probably the receivables in this business probably would being a services business would be a little higher compare to the other set of businesses that we have some rough idea that you can give?

Apurva Parekh: As I said please wait for another quarter or two and we will give a clearer picture on this company. But you must also understand for us it is a part of broader strategy where we have products and we have services. And once we offer that as a package that is slightly different then just leaving alone services or products. So for us it is bigger more important strategic thing where we are offering both together. So while return on capital maybe somewhat lower, overall there is a better strategic objective but let me come back and share some clearer picture on Nina in next couple of quarters.

Sujit Jain: Certainly. And sir VAM prices for the quarter that is the second quarter you said they ended at probably 925-950. But what has been the rough average price for the quarter, this quarter and as well as the base quarter that is 2Q '15?

Apurva Parekh: I do not have an exact picture but I would say it maybe a little higher than 950 for the last quarter.

Sujit Jain: That is 2Q 2016?

Apurva Parekh: Yes.

Sujit Jain: Okay. And one last question is on the Elastomer Project. The capital employed in that business I am sure that sir the prices of this particular polymer would have also come down along with the price decline in many other materials. What is it in terms of the call that we would take in this business? Because this amount that is locked-up in this project is equal to let us say close to two years of our maintenance CAPEX which you just elaborated is typically anywhere between 150 crores to 170 crores. So when is it that we are likely to take a call on this capital employed that is locked-up?

Apurva Parekh: So two questions, first is in terms of reduction and price of synthetic rubber. The price reduction has not been as sharp as say oil or VAM, the price reduction has been much less than that because of various demand-supply and other situations. As far as when we will take a decision, as we have said earlier we continue to look at various option for this business and fairly soon we will take some direction in terms of where we are going with it. But as you know, two or three years ago we stopped further CAPEX on this other than a very small maintenance CAPEX. So we continue to look at strategic objectives and we will decide on something in near future.



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- Sujit Jain:** But this would not be contributing anything to the revenues currently right?
- Apurva Parekh:** Currently it is not contributing anything to the revenues.
- Sujit Jain:** So when we say strategic option which means probably eventually to selling out to somebody.
- Apurva Parekh:** No, strategic option can be many I would not like to spell them out but there could be a number of different strategic objectives. We have decided not to pursue this alone but we are open to any kind of strategic option that maybe available.
- Moderator:** Thank you. We will take our last question from the line of Ruchi Vora from CLSA. Please go ahead.
- Ruchi Vora:** Sir I had a broad level strategic question on capital allocation and deployment. Over the next few years I recognise we will be generating pretty strong cash flows. Would we increase our dividend payout? Would we consider acquisitions in the Indian market let us say in product or applications? Or would we also consider foreign acquisition so a broad level strategic through process would be helpful.
- Apurva Parekh:** First of all in terms of dividend payout increase we have not taken any concrete decision whether we would increase or not. It is certainly a possibility but it has not come for consideration by the board but it would happen in due course this year. As far as acquisitions go, certainly based on our past experience, we are now far more selective in terms of our acquisition criteria and hence if you have seen in last couple of years the kind of acquisitions that we have done are very strategic and most of them are in our core businesses. So we have now identified for ourselves a certain set of products which are core to us and certain geographies internationally which are core to us. So we want to really look at acquisitions only in this space and once we are convinced that this could serve our strategic objective. So some of the past acquisitions that we have done, compared to that, we are far more selective and we have far more sharply defined in our acquisition criteria. And only if something were to fit into that, will we do it. But we do look for inorganic opportunities both inside and outside of India.
- Ruchi Vora:** So do we have an appetite for a large let us say inorganic opportunity if at all it knocks our door or are we going to keep on allocating small amounts of capital like we have done in the last two years?
- Apurva Parekh:** I do not know what is your definition of large? But certainly, our appetite is not to do something which can put very large strain on the company. So we would certainly be cautious about that but the definition of large could be different but certainly cautious that the fact that we would



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not want to do something which can then put a sort of strain on the entire company or strain on a standalone.

Ruchi Vora:

Okay. And sir, just a quick suggestion actually, the company elaborates in a great way the international businesses while we do not undermine the potential the effort towards those set of businesses but they are actually less than 9% of your consolidated revenues and we would really request the management to provide more color on the sub-segments in Consumer & Bazaar because that is I would roughly about 70-80% of your overall revenues. We obviously elaborate a lot on the international segments which is obviously useful and thank you very much for that. But it would be very helpful if you can elaborate a bit on your core businesses because you have done exceptionally well in them and I think we would like to hear more on them.

Apurva Parekh:

Certainly. So we will certainly give some more information on that going forward and we will certainly elaborate a bit more. If you look at our Annual Report we do give the sale into segment wise Adhesives and Seal and Construction, and Paint Chemicals, Art Material and Industrial Product. Again industrial product broken up into three more segments. So if you look at our numbers we do break it up on an annual basis which will show you how the businesses are doing but we will see whether we can provide some more information on quarterly basis which gives a better idea.

Ruchi Vora:

Yes, because your segments are very niche and it is not easy to track the competitive environment in them and also how your products have done versus the market so, some color would be useful especially when you have done so well in your core businesses. So that will be helpful.

Apurva Parekh:

We will evaluate while keeping in mind we are in a niche businesses we need to be a little careful about how much we share what we share but still we want to share enough information which would allow you to get a reasonable idea of our operation in the core business.

Moderator:

Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Rakshit Ranjan for closing comments. Over to you, sir.

Rakshit Ranjan:

Thank you. On behalf of Ambit, I thank all the participants and Mr. Parekh for being on the call. Sir, any closing remarks you want to make?

Apurva Parekh:

Thank you very much Rakshit for organizing this call. And thank you everybody for being on the call.



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Moderator: Thank you very much ladies and gentlemen and members of the management. On behalf of Ambit Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)