Pidilite

21st November, 2016

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The Secretary
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Exchange Plaza, Plot no. C/1, G Block,
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Dear Sir,

Sub: Transcript of the Earnings Call

We enclose herewith, a transcript of the Earnings Call, held for an interaction of the Management team of the Company with Analyst/Investors on 10th November, 2016.

Kindly take the same on your records.

Thanking You,

Yours faithfully,
For Pidilite Industries Limited

Savithri Parekh
Secretary

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Pidilite Industries Limited
Q2FY17 Earnings Conference Call

November 10, 2016

MANAGEMENT:	**MR. APURVA PAREKH – EXECUTIVE DIRECTOR, PIDILITE INDUSTRIES LIMITED** **MR. PRADEEP JAIN – CHIEF FINANCIAL OFFICER, PIDILITE INDUSTRIES LIMITED**
MODERATOR:	**MR. AVI MEHTA, IIFL CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries' Q2FY17 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode. 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. Avi Mehta from IIFL Capital. Thank you, and over to you sir.

Avi Mehta: Thank you Tanvi. Hi, good evening everybody. On behalf of IIFL, I would like to welcome all of you to the Q2FY17 Conference Call for Pidilite Industries. From the company, we have with us, the key senior management including Mr. Apurva Parekh, Executive Director and Mr. Pradeep Jain, CFO. I would now like to hand over the call to the management for their opening comments. Over to you sir.

Pradeep Jain: Thank you Avi. Good evening everyone. Welcome to Pidilite's Q2FY17 Earnings Conference Call. We will begin with a few comments on the macroeconomic front. The demand environment has continued to be subdued. Given the good monsoons and impending implementation of the GST, we are hopeful of a gradual improvement in rural demand and consumer sentiment.

We will move on to the business highlights for the quarter. While the industry has continued to witness challenging market conditions and muted volume growth, we have delivered a steady volume growth across our product categories in the quarter.

A quick update on our acquisitions and joint ventures. Bluecoat and Falcofix have continued their good run. Both, ICA Pidilite JV and Pidilite Lanka acquisition, are shaping up well. Our water proofing services subsidiary, Nina had a soft quarter, driven by the exceedingly wet monsoon. Given the revenue seasonality of this business being skewed towards the second half, we are hopeful of seeing a pick-up in the second half.

Moving over to the financial performance, we have adopted Indian accounting standards 'Ind-AS' with effect from 1 April 2016. Accordingly, the standalone and consolidated results for the quarter and half year ended 30 September 2016 and the comparable quarter and half year of the previous year have been prepared in compliance with the same. For the quarter, our standalone gross sales grew by 6.6% over the same quarter last year. The break-up of the 6.6% is 6.4% for the Consumer and Bazaar business and 5.2% for the Industrial Products business.

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The underlying volume and mix growth is 8.5%. This was driven mainly by 7.8% growth in the sales volume in mix of Consumer and Bazaar products, and 12.7% growth in the sales volume and mix of Industrial Products business. EBITDA, before non-operating income and exceptional items, was higher by 9.5% over the same quarter last year. Profit before tax grew by 13.2% and profit after tax grew by 17.1%. On a consolidated basis, gross sales grew by 9.1%. EBITDA, before non-operating income and exceptional items, grew by 7.2%. Profit before tax grew by 9.4% and profit after tax grew by 13.1%. With this, I would now like to open the floor for questions.

Moderator: Thank you. We will now begin the question answer session. The first question is from the line of Samir Gupta from India Infoline. Please go ahead.

Samir Gupta: First question is, while growth has moderated to 7% versus your aspirations that you said in your last call of 15% plus now with this, Rs.500 and Rs.1000 notes replacement, do we see any challenges to meeting that guidance for FY17?

Apurva Parekh: Firstly, this 15% was not a guidance. What we had said was that our historical growth rates over the 5-10 year period have been around 15% and, hence, we are working towards achieving those kind of growth rates again. They were not shared as a guideline or outlook for the coming quarters. On the second question, about Rs.500 and Rs. 1000 notes, it is very early to say anything about it. We are trying to understand fully the impact of that on the ground but as of this moment, we do not have a view on how will this affect our business in the coming quarter or quarters.

Samir Gupta: Secondly sir, could you give a tax rate guidance like what we should build in for the full year?

Pradeep Jain: Sameer, are you referring to the direct tax rate or you are referring to the indirect tax rate?

Samir Gupta: Direct tax rate.

Pradeep Jain: Our current effective tax is in 30% range and we will be at about 30%.

Moderator: Thank you. Next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the raw materials; we are still seeing the benefits but we have seen couple of crude-based other polymers have started inching up. So how much of our input are you seeing any cost inflation or for the next 6 months you expect current scenario to sustain?

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Pradeep Jsin: Right now, the prices are holding and, therefore, what we can convey is that our prices are dependent on crude and typically when crude inches up, they tend to follow that with a lag of a quarter to 4 months.

Apurva Parekh: One more thing in our raw material price also, there is a good amount of correlation to demand and supply. Demand and supply can also, sometimes, cause higher or lower prices. As of right now, the situation in some of the raw materials appears to be favorable.

Anshuman Atri: Second question is regarding the industrial segments, you expect any near-term figure, or is it still too early to see any green shoots in the industrial segments?

Apurva Parekh: If you look at our industrial products business in this quarter, we have had reasonable value growth and we have had more than 10% volume growth and our EBITDA has grown by more than 30%. So, our industrial products have been performing on a steady basis for the past several years and with their increased focus on product mix and specialty products, their margins have been steadily expanding. But if the overall economic scenario will improve further, we are well-poised to benefit from that as well.

Anshuman Atri: Just one last clarification, you had given 6.4% and 5.7% volume growth for C&B and others?

Pradeep Jain: No, that would be a value. Value growth was 6.4% and 5.2%. Volume growth was 7.8% and 12.7%.

Apurva Parekh: The volume growth for industrial is 12.7% and consumer and bazaar is 7.8%. When we say volume, its volume and mix together.

Anshuman Atri: There is sharp difference between 12.7 and 5.2, so you would have passed on most of the things in industrial whereas you could maintain it in the C&B?

Apurva Parekh: In industrial, you have to pass on a good amount of impact. But if you still see, our EBITDA has grown at a good pace, which is due to both, improvement of product mix and some favorable raw material cost. But yes, certainly in industrial, we have to pass on a lot of the benefits to the consumers.

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

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Gunjan Prithyani: I just wanted to get more sense on what are the VAM prices right now and have we taken any price adjustments or any price adjustments that could follow in the coming quarters. Any sense of price action please?

Pradeep Jain: VAM continues to be stable. It is in the $750-800 range, Gunjan, very stable. And on pricing, as we have said umpteen times in our earlier calls, it's not dependent only on raw material price movement etc. That's an ongoing process and a very dynamic process. We tend to take a lot of pricing decisions on an ongoing basis and not necessarily linked to VAM price.

Gunjan Prithyani: But given that the demand has been so weak and have also particularly seen competition increase in specific segments and I am not talking about adhesives, I am also talking about construction chemicals where the competition is more. Do we think that making any price adjustments can help us accelerate growth?

Apurva Parekh: Generally, Gunjan, we don't use pricing significantly to try to gain volume. But we do make adjustments from time to time as necessary. So, we closely look at the market and competitors and as and when there is a need, we do increase or decrease the prices. However, in your earlier question, the raw material prices continue to be soft. And, hence, there is not a significant need for price increases. We may do some price action in some products in case we believe we need to protect our share or if we believe that would help us improve the share. But generally, as a company, we do not like to use pricing as a strategy to increase the share.

Gunjan Prithyani: The question I am asking is more from a price adjustment downwards because from the comment that you always been giving is that if crude stays at a particular level for a long period of time, you would take some price action depending on that. So, we did not really take any price cut action in the last 12-18 months when crude was soft and the outlook on crude still stays quite benign, that it is going to be fairly range bound. So, now could we look at some price adjustments downwards, only just to maintain market share?

Apurva Parekh: If you recall from some of the past few calls, we have said that we have taken some action on pricing and discounts also. So, as and when the market situation demands, as and when we believe that it is necessary, we have also made adjustments and reductions in pricing or increased the discounts. We have done that. It is not that we have not taken any action for the past one year. What I am trying to reiterate is that as and when we believe there is a need, we certainly do take action on pricing from both the sides and we did that in the last few quarters if you recall. We did increase discounts in some products or we did reduce pricing in some products. All I am saying is, we don't need to do anything across the board or of that nature.

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Gunjan Prithyani: Anything that you have seen on the ground which could suggest that second half growth could be better or the market environment remains quite sluggish. I am just talking ex-events which have happened yesterday, but before that have you seen any improvement in the sentiment on the ground?

Apurva Parekh: After September-end, and only October, and October this year had Diwali, etc. I think generally based on one month, it is difficult to say. So broadly we can say that we have not seen any significant difference or change but one month is not indicative of how the quarter may go.

Gunjan Prithyani: Last question, on the last elastomer or international, any progress there on the divestment or any change there?

Apurva Parekh: On Elastomer, there is no change. We continue to make efforts to find a solution. But couple of developments have happened. We are now manufacturing adhesives and sealants in our Dahej plant, so we are utilizing that plant and some of the infrastructure to manufacture and export adhesives. So, we are putting some of those assets to use. As far as international goes, when we come to that, we can discuss that a bit more, but as far as divestment goes, currently in Dahej, we are looking for strategic options. Otherwise, the plant remains on hold.

Gunjan Prithyani: The next question is from the line of Kishor Kumar from Karvy Stock Broking. Please go ahead.

Kishor Kumar: I have a couple of questions; could you give broad sense of overseas revenue performance during Q2? Also, want an update on voluntary recall of tempera paint and finger paint; how did it impact the US market business?

Apurva Parekh: What was the first question, could you repeat please? I could not fully listen to that.

Kishor Kumar: My first question is could you give a broad sense of the overseas revenue performance?

Apurva Parekh: As far as international business goes, you may have seen the figures. The net sales in the quarter grew by about 7% in constant currency. Within that, North America business has grown by about 6%. Our art material business has done well. There is good growth in that business. However, our automotive chemical business had some decline in sales due to difficult conditions in Middle East and Latin America. But, as a whole, the business grew by about 6%. Otherwise, our SAARC business have grown well, partly due to the acquisition that we did in Sri Lanka. South America business, the sale has declined but the business now is

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profitable. The business has really focused on improvement of margin and that has resulted in some profitability. If you see, topline growth is only about 6-7%, affected by the decline in sale by South America, which has been a key factor. As far as your second question about recall, as we have said, after addressing the quality problem that we had, we had started dispatches to the customer. Most of the customers continue to buy from us and we commenced a dispatch in later part of September and early part of October. So, the dispatch has started and they have achieved a near normal level.

Kishore Kumar: Could you tell me what is the contributing part of these overall portfolio in the US market?

Apurva Parekh: Overall if you look at our US turnover, the turnover of this product would be around 10%.

Kishor Kumar: And second question is related to Capex, so is there any update on Capex and how do you see it?

Pradeep Jain: It would continue to be in line with the historical trends. Right now, we don't see any outlier. Obviously, the year in which we put up a little bit of capacity, it could go up and down a little. But no major change from the historical trend.

Kishor Kumar: It means it is in the line of 2.5-3% of sales?

Apurva Parekh: See normal Capex would be like that in any given year. So, even in 2017-18 but if there is some new opportunity or restructuring, there maybe some additional cost, there may be acquisition. So, 2017-18 is far away. For us, it is difficult to estimate right now what would be Capex of 2017-18. But every year, we have a normal capex and occasionally we have some special items.

Moderator: Thank you. The next question from the line of Amit Purohit from Emkay Global. Please go ahead.

Amit Purohit: Just one on the international segment, which we see over the last two quarters, the performance has been muted at the operating level? Is there some structural thing or there are too many one offs? One I understand, Middle East has been a problem. Otherwise also, when I look at the numbers of North America, South America, Q2 has been better.

Apurva Parekh: If you look at where the improvement has happened, the improvement has happened in South America. If you go back 2-3 years, we were incurring significant losses. So, those losses are now eliminated and in this quarter, we turned profitable. In the first quarter also, we were at

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break-even. South America, as far as operating profit level goes, there is improvement, from a country where there were significant concerns couple of years ago. As far as North America goes, the business is doing well. But they have this one-off product recall issue, otherwise our art material business is doing quite well, making good progress and we had this one-off recall issue, which had some cost impact. However, the positive thing there is that after addressing the problem, we have started dispatches to our customers, and our sales have come back and we are supplying to most of their customers and hence it appears that there is no long-term business impact. That is the one-off item we are talking about. Lastly in the Middle East, we had made significant investments in terms of putting up a new structure, looking at developing a strong construction chemical business there and some of the other products. Looking at the performance and looking at the current scenario, we are taking some steps to reduce the SG&A expenses. So currently if you see in terms of losses, the significant losses are only in the Middle East region and there we have now initiated steps to reduce the SG&A expenses. So, from next quarter, you will start seeing the impact of that. We had taken some initiatives to develop sales but considering that it is taking a longer time and considering the economic scenario there, we are pulling back on some of the SG&A expenses.

Amit Purohit: Just on understanding the numbers better, consolidated and standalone, the top line number comes to about 200 odd cores, whereas when I look at the international business is about 148 odd crores. So, that balance 50 crores, one I understand, talks about constant currency?

Apurva Parekh: There are domestic subsidiaries of Nina, Percept, and ICA. We have three domestic subsidiaries. And there are also eliminations.

Amit Purohit: So, is it safe to assume that Rs 200 crores minus Rs 150 crores, Rs 50 crores will be towards this, all the other subsidiaries or should I get the revenue, this is constant currency when you say, you have given in the press release of Rs 148 crores?

Apurva Parekh: More-or-less as you said, there are some elimination entries, but that would not be significant. But yes, you can assume that as details of the domestic subsidiaries and we will include some more details on domestic subsidiaries from the next quarter.

Amit Purohit: And lastly on the domestic demand side, I wanted to understand, has there been some improvement, on the ground level, you have seen while I understand you indicated that consumer bazaar segment was impacted because this is anyway a soft quarter plus prolonged monsoon. So just wanted to have your view on this, at the ground level are you seeing October and November to be better?

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Pradeep Jain: Just one point, if you look at our performance relative to what is happening on the consumer side, I think we have delivered a very steady quarter. Volume growth of 8.5-9% is pretty good in the current environment. And like we said, this quarter's performance is pretty much in line with the last quarter's performance and going forward, as Apurva mentioned, it's too early to call out what is likely to happen in Q3 or Q4. So, we would want to abstain from calling out what is going to happen in Q3 or Q4.

Amit Purohit: And last, on the industrial, the margin profile fluctuates, in the sense last quarter versus this quarter again, there is a sustainable 18-19% of kind of margin which looks to be, while we have seen sequential drop in the consumer bazaar margins where industrial margins have been strong from 18-19%. So, if you could just highlight some of the points because you believe that industrial you pass it on, but sequential, there has been an improvement.

Apurva Parekh: As I said earlier, if you look at the improvement in our industrial margins, it has been steady for the past several years. We have taken lot of measures to improve product mix and the type of business that focuses more on the specialty chemicals. So, structurally we have been improving the margins of our industrial business.

Amit Purohit: And the application of your product goes to which industry?

Apurva Parekh: It goes into several industries. We make product categories called organic pigments and preparations, which goes into inks, paints, textiles and plastics. That is one segment. We make industrial adhesives, which go for packaging, for cigarettes, for number of other applications, anywhere where industrial adhesives are required. So, that is the second segment. Third segment is industrial resin, which goes paper coating, paint, carpet back sizing and number of other applications. So, basically, this is a wide portfolio of industrial specialty chemicals, which go into several end user segments in India and outside of India.

Amit Purohit: 5-6 years back, was the portfolio similar or is there now change in the product?

Apurva Parekh: If you say within that product category, the difference would not be very material. We had similar portfolios 3-4 years ago but within each of the portfolio, we have focused more on the specialty aspect of it and more on the segment which can result into better margin. So, within each of the product categories or businesses, we have taken several actions to improve the overall mix of the business.

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Moderator: Thank you. The next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: I just wanted some of your comments on how you see competition spanning out it in the case of our consumer business and also if you could give some sense in terms of reach where are we today, how are we trying to expand that and thirdly, say on a 3-5 year horizon, what are the important factors or triggers that you are seeing for growth in case of our consumer business?

Apurva Parekh: First question, as far as competition goes, there has been no change as such in the last quarter. We continue to have competition from small, medium and large companies, different types of competition in different segments. As far as the competition scenario goes, nothing has significantly changed in last 3-6 months. Some new players have come in but traditionally, in most of our categories, we have had competition from small and medium companies as well as multinationals. So, that is just a broad view. If you have any specific questions within that, I can answer that. Second question was regarding the reach. We have fairly deep distribution and a distributor network which covers most towns with population of more than 20,000. And in addition to that, we reach out to a lot of smaller towns through indirect coverage. We have a fairly wide and deep distribution network. So, that is one thing. Going forward, there are several initiatives for growth. We believe that in most of our categories, consumption levels can still be improved, both the penetration as well as the consumption level, we believe there is lot of opportunity for growth. So, we are focused on initiatives to help us improve the penetration as well as improve the consumption levels. These are the broad initiatives as well as we are also looking at expanding our overseas reach in emerging countries. So, we have identified that our repeatable model can be taken to some of the other emerging countries, so that is the third initiative to expand. Fourth, there are some new product categories, for example we have done this joint venture with ICA, which takes us into premium wood finish category, which is a very large category and which will show good growth. We have gone into services of waterproofing chemicals with Nina. These are areas which are adjacent to our core business but they have opened new growth avenues.

Kunal Bhatia: Last ones which you mentioned, at the moment, how big are those opportunities where we have entered if you could give us some sense on the same?

Apurva Parekh: Top line of both these businesses would be around Rs 100-200 crores each.

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Kunal Bhatia: And you mentioned currently in case of distribution, we cover most of the town with 20,000 plus population, do you have any kind of a number to share in terms of how many distributors or touch points we have currently for us.

Apurva Parekh: We have separate distributors for each of the divisions. I don't have the exact figures. But if you just look up the census and see the number of towns more than 20,000, you can safely assume that we will have a distributor stock point in most of them. We may not have in some area which are very low potential or which are very remote. But in most of the population centers with more than 20,000, we will have a distributor stock point in each of the towns. In some of those towns, we may have multiple stock points, but we will at least have one stock point.

Kunal Bhatia: And in terms of H2, do you expect it to be better than H1?

Apurva Parekh: We don't like to give any expectations or projections or outlook, and currently as you know the situation is very unpredictable. So, it is best for us not to make any estimate or projection but as we have said earlier, we are highly focused on accelerating top line growth. That is number one initiative that we have.

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

Tejash Shah: Sir I logged in late, in case if I am repeating the question, just wanted to understand any color on GST revenue neutral rate for us and which bucket we expect to be part of GST in?

Pradeep Jain: Tejash, our current effective tax rate would be in the range of about 22.5-23.5%, that's broadly the range. While the tariff-wise rates have not come out, we would want to believe that a part of our portfolio should fall in the 18% and part in the 26%. So, what will be the mix one doesn't know. We will wait for the things to pan out.

Tejash Shah: And this revenue neutral rate is for the whole portfolio you said?

Pradeep Jain: It's broadly the effective tax that we pay today.

Tejash Shah: Second, we have seen that in an inflationary environment, and even in deflationary environment you don't like to disturb the trade a lot. And that's why you hold on to your prices for a longer period irrespective of the situation for a period. With that point in the backdrop, we have seen that some inflationary forces are coming back in some of the input buckets in the

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economy. So just wanted to understand what will be your first line of defense if inflation comes back in the portfolio to protect margins?

Apurva Parekh: Well, let it come. We don't want to speculate. We will see in what form the inflation comes, what is the demand scenario at that time, what is the competition scenario. So, we don't have a policy that we need to protect very high margins at any cost. In fact, when our margins peaked at that point of time, we had clearly said that these margins are not sustainable in the long term. However, when inflationary pressure comes, we were to look at all these factors and then decide what is the right thing to do at that point of time. There were always options and you need to look at Pidilite on a little longer term scale. We do manage our both top line and bottom line growth in a proper manner over the medium-to long-term.

Tejash Shah: Certainly, sir. Just couple of book keeping, VAM prices in this quarter and effective tax rate for the full year?

Pradeep Jain: I shared a little while earlier in the call, VAM prices were in the range of $750-800. And tax rate would be about 30%.

Moderator: The next question is from the line of Girisha Saraf from Ambit Capital. Please go ahead.

Girisha Saraf: You mentioned that you have a lot of competition from small players, medium players and multinational corporations. But now, what are your views on driving competitive intensity by serious consumer-focus companies like Astral and Asian Paints, which not only have very large brands but also strong intermediary connects and now that they are getting aggressive in to the adhesive and construction chemical business?

Apurva Parekh: Maybe I did not properly say, we also had competition from large Indian companies like Jubilant, which has been our competitor for a long time. At one point, there were companies like Mafatlal and lot of other companies. So, we've had competition even from larger Indian companies. Having said that, competition is part of our game. In some of our categories like construction chemicals, we believe that good competition would also help us expand the market. Because as I said earlier, consumption is one of the key issues in many of our product categories and most importantly in construction chemicals where we believe there is huge opportunity to expand consumption. And, hence, we believe that some good Indian companies coming into this segment would also help expand the market. Having said that, we clearly need to be vigilant, we need to understand that these are good companies. As far as Astral goes, they acquired a business of the company called Resinova, which has been in market for more than

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20 years. So, that was more of an acquisition and that company was existing before and it is continuing in their hands.

Girisha Saraf: And sir we hear that Pidilite is building a team for new product launches in the industrial specialty chemical business also, so are we set to see a rise in R&D expense finally and given that you also want to increase share in the industrial segment?

Apurva Parekh: So, I am not sure what exactly you heard, but we have fairly large team for handling product portfolio and they also handle new product introductions. They handle that and we have been continuously sort of strengthening our R&D capabilities, so we may have hired some people in our R&D department, or we have hired some people, that is a part of continuously strengthening our R&D team. For Pidilite, the introduction of new product has been important for many decades and that continues and we continuously enhance our capabilities to do so.

Girisha Saraf: The fact that we are growing in the industrial segment, we should see more R&D, because I understand that the industrial segment, is less brand focused and more focused on the product of the technology?

Apurva Parekh: You are right about that. Industrial product very much depends on making sure our products are current and our products are of the right technology. So, we continuously invest in upgrading our product portfolio, developing new products and introducing new products. That has been important, it continues to be so.

Moderator: Thank you. The next question is from the line of Tanmay Sharma, from Edelweiss. Please go ahead.

Tanmay Sharma: My question is on the real estate projects, I want to know what proportion of our overall construction chemical, C&B business, comes from new housing? Is there any data, internal percentage, ballpark figure?

Apurva Parekh: We don't have an exact figure because a lot of channels overlap. It is also difficult to estimate from the packaging side alone, so it's difficult to estimate but maybe you can say somewhere in the region of 20-25%, if I must hazard a guess. Though very difficult to estimate, maybe something of that order.

Tanmay Sharma: My next question is on margins, I understand other expenditures are because of higher ad mismatch of air spend timing; are our ad spends increasing on percentage of revenue on a YoY basis, or are they in the 4% range this year also?

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Pradeep Jain: They will pretty much be in the same range. Compared to the previous year, they are a little higher but that's more a question of previous year being a little low. But yes, the number you have mentioned, we have pretty much been in the same range.

Apurva Parekh: But for the full year, our advertising spend as a percentage of sales may be higher than last year.

Tanmay Sharma: And sir my last question is on WD 40, what is the thought process on acquisition because this is a distribution channel that we are providing for WD 40 and there will be a margin cap and what is the thought process behind this? Are we open to these sort of acquisitions, going ahead, also?

Apurva Parekh: WD 40 is not an acquisition, just to clarify, you know that. But yes, we will be open to such tie-ups if we find some good strategic tie-ups. Now, WD 40 is world's largest multipurpose maintenance spray. It is an iconic brand in the US and many parts of the world. In India, also, they have been selling these products for more than 20 years. So, they have been present in the Indian market. They have good brand equity in Indian market. There is a very good distribution synergy as well as there is a good end-user synergy. Plus, we believe for the WD 40 product, there is a huge potential to expand both penetration and consumption. So, with that we felt that there is a good synergy as well as there is good opportunity to increase sales. With that we have entered a long-term distribution tie-up with them.

Moderator: Thank you. The next question is from the line of Avi Mehta. You may go ahead.

Avi Mehta: What I wanted to understand is if I look at gross margins for the company is it better to look at the Q2 numbers? If the RM-to-sales is at 46.5 in this quarter, that is the base number and on that there will be marginal swing depending on the mix, if the mix is too vary if you look at it on YoY basis instead. Should Q3 numbers be compared to Q3 only?

Pradeep Jain: I guess the only call out there is that our first quarter is always a little high on revenue seasonality. So obviously in that first quarter, we tend to get a little more of operating fixed cost leverage and, therefore, our margins are also little higher, but otherwise there is no distinct variation between the quarters. .

Avi Mehta: From a gross margin perspective.

Pradeep Jain: It should not be of significant difference.

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Avi Mehta: The second thing is on pricing action, just trying to understand your thought process on that. When you look at pricing, do you look at it in the context of a percentage growth that you have in mind that you want to achieve in EBITDA base, do you look at sales growth or how do you look at it in the broad sense? I know it is not a simplistic decision but trying to get some structure around this.

Apurva Parekh: All these are valid considerations, also your market position, market share, how the consumers are evolving, so there are number of factors. But we are conscious of all of that. Overall, our margin levels, our top line growth, our market share, all these factors play an important role in deciding the pricing. Again, it changes a lot between product categories. In industrial, the pricing policy will be very different than in bazaar and that would be also different than consumer products. But within consumer and bazaar, there are products and price points where generally the price remains at one price point for a very long period of time. In bazaar, there is a greater flexibility. Again, it depends on bulk pack, small pack, lot of factors, no uniform one policy.

Avi Mehta: And lastly sir, you indicated that it would be difficult to highlight, would you be able to highlight your key concerns which may hurt or may not hurt because of this change in market in terms of Rs.500 or 1000. What are the key concerns, is it a distributor level concern, is it demand level concern, could you throw some light here?

Apurva Parekh: We would not really like to comment on this. First of all, it is so early that we do not know what is happening on the ground. This is something which is fast evolving and the government is addressing lot of concerns that people have. We are hopeful that things would become normal very quickly as the government is committing to do. If that were to happen, there may not be much impact. But if there is an impact, we will come to know. But it is still very early to comment anything on this.

Avi Mehta: Is there a channel level impact also which could occur is what I wanted to understand?

Apurva Parekh: We would not like to comment on this. We would like to see what happens.

Moderator: The next question is from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead?

Rahul Maheshwari: Just one question, the Art and Craft Materials segment which is there which is contributing 10-12% kind of top line, can you just throw light on the what is the size of this segment, no doubt

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the hobby idea which is a brand, what is the market share of the company and how big the category can be and what are the initiatives which would be upscaling from 12% to a higher number to the top line?

Apurva Parekh: The art and craft category has several segments. So first, there is a segment of craft adhesives which includes products like Fevicol and Fevistick, which is used for crafting related work. We have a very strong position in that segment and we are very focused on expanding craft activities in India. If you see, not all schools and all children participate in craft activities. So, there is lot of potential for growth in this segment. But we need to work and overcome a lot of obstacles in this and increase the crafting activities, both at schools and for recreation.

Rahul Maheshwari: What could be the size of the market in India?

Apurva Parekh: Rough estimate could be Rs 150-200 crores.

Rahul Maheshwari: What is our market share in that?

Apurva Parekh: It is fairly high. Again, I don't want to break up our market share in segments.

Rahul Maheshwari: This Rs 150 crores market size is in India but all products are being sold in North America in this segment. So how are the international operations performing?

Apurva Parekh: That is a different market. In USA, we acquired arts and craft company. So, they have a different brand name, a different portfolio and they operate in a different independent manner. We don't export our product there for selling. They acquired a business there which is mainly into education art materials. They are not into craft adhesives. In addition to that, there are some other segments. There is a segment of hobby colors. Our market position in this is also fairly good. And that is also a segment we are focused on expanding consumption.

Rahul Maheshwari: Just a fall back; is this segment growing in double digits for you, the Art and Craft Materials?

Apurva Parekh: I do not have the exact numbers for it but yes it could be growing on medium-to long-term basis.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Pradeep Jain: Thanks a lot everyone for participating. Look forward to catching up next quarter. Thank you.

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Moderator: Thank you. On behalf of IIFL Capital, we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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