12th August, 2020

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Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex,
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Mumbai - 400 051
Stock Code - PIDILITIND

Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 7th August, 2020.

Kindly take the same on records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

Puneet Bansal
Company Secretary

Encl: as above

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"Pidilite Industries Limited Q1FY2021 Earnings Conference Call"

August 07, 2020

ANALYST:	**MR. RANJIT CIRUMALLA – B&K SECURITIES**
MANAGEMENT:	**MR. APURVA PAREKH - EXECUTIVE DIRECTOR – PIDILITE INDUSTRIES LIMITED** **MR. PRADIP MENON – CHIEF FINANCIAL OFFICER - PIDILITE INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Pidilite Industries Limited Q1 FY21 Earnings Conference Call, hosted by B&K Securities India Private Limited. 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 to Mr. Ranjit Cirumalla of B&K Securities. Thank you and over to you Sir!

Ranjit Cirumalla: Thank you, Inba. Yes, good evening. We at B&K Securities, welcome all the participants who have logged into Q1 FY21 earnings call of Pidilite Industries. We have with us today Mr. Apurva Parekh, Executive Director; and Mr. Pradip Menon, CFO of Pidilite Industries Limited. We thank the management of Pidilite for giving us the opportunity to host this call. I would now request Mr. Apurva Parekh to take us through the company's performance during 1Q and the outlook, post which the floor would be open for Q&A. Over to you, sir. Thank you.

Pradip Menon: Yes. Thanks, Ranjit. This is Pradip Menon here. I will give the opening statement, and then we will take questions. So good evening, everybody.

I'll begin with the summary of the financial performance for the quarter ended 30th June '20 for the stand-alone business. This quarter's performance was significantly impacted by the lockdown as a result of the pandemic. While April sales was completely impacted, we saw a partial recovery in May and a significant recovery in June. The recovery has continued in July. The profitability of the business was helped by softer input costs as well as stringent cost control measures undertaken across the organization. While near-term demand appears uncertain as a result of the continuing pandemic and the resultant restrictions across several parts of the country, we remain focused on restoring volumes and ensuring profitable growth.

From a geographical perspective, the metros have been the most impacted. The western and northern regions have been more impacted than the South and East. Consumer & Bazaar businesses have seen a swifter demand recovery, especially in rural areas and semi-urban towns. We are seeing a strong recovery in construction chemicals, and DIY products. Business-to-Business (B2B) segment is seeing a slower recovery.

As a result of periodic restrictions, our plants` are operating at a capacity utilization of 75% to 80%, and operating efficiencies of our warehouses have been impacted on and off during the quarter. Most of the employees are working from home and necessary office connectivity is in place. Versus June, July had stronger sales performance, largely driven by Consumer & Bazaar segment.

Our retail construction chemicals and Emerging India - Emerging India is covering our rural and small-town business, has returned to double-digit growth over the last 2 months. Our B2B business in construction chemical continues to be impacted negatively due to the ailing real estate sector.

Net sales at INR 768 crores declined at 57% over the same quarter last year, with underlying sales volume and mix decline of 58.3%. This was also driven by a 58.6% decline in sales volume and mix of Consumer Bazaar, and 53.7% decline in sales volume and mix of Business-to-Business.

Material cost as a percentage to net sales is lower by 297 bps over the same quarter last year. However, it is higher by 134 bps versus previous quarter. Current spot price of our major raw material, vinyl acetate monomer, is around $650 to $700 on account of low demand and stressed market conditions. We do not believe prices at these levels are sustainable in a post pandemic environment. The consumption cost for Q1 '21 is around $825 as compared to Q1 20 consumption cost of $965. Benefits in input costs as compared to the prior quarter are neutralized by adverse currency movement and change in product mix.

During June, the performance in terms of profitability as well as absolute EBITDA has been at levels of prior year. We have taken adequate measures to keep costs under control. EBITDA before non-operating income stood at INR 97 crores for the quarter and declined by 77% over the same quarter last year. Profit before tax at INR 77crores declined by 82% over the same quarter last year. PAT at INR 57crores, declined by 80% over the same quarter last year.

In terms of consolidated performance, net sales at INR 873 crores declined by 56% over the same quarter last year. EBITDA before non-operating income stood at INR 67 crore, a decline of 85% over the same quarter last year. Profit before tax declined by 92.8%.

Moving on to our domestic subsidiaries' performance. Performance of subsidiaries were heavily impacted on account of nationwide lockdown in most parts of the quarter due to COVID-19. During the lockdown, the focus of the subsidiaries was towards collections and improvement in working capital.

Moving on to international subsidiaries performance. While performance of our international subsidiaries has been impacted due to the pandemic more so in the SAARC region than the rest of the world, we have seen a recovery in June and July. We focus on D&E markets, as you know, and our global business is split into 3 main areas: Asia, Africa and Middle East and Americas. As such, we have commenced our reporting into these 3 broad groups from the current quarter.

To sum up, we believe that normalcy will return to our business when 1) consumer confidence is back, and that is linked to the pandemic coming under control and 2) the consumer has money in his pocket to spend. So far, we have seen the markets recover faster than we expected, especially in the regions where lockdowns are eased. As such, when the pandemic subsides, we could return to normalcy quite quickly. Pidilite is driving a big initiative to educate the contractors on basics of hygiene and related workplace and personal safety practices, then the contractor is able to convince the consumer that it is safe to allow him into the house. There are online certification

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modules and also videos that are being circulated for this purpose. We believe that our strong brands, extensive distribution network, robust balance sheet and connect with consumers and end users will help us in restoring volumes and ensuring profitable growth. Going forward, we would like to remain cautiously optimistic, primarily on account of external constraints such as probable lockdown extension, uncertainty about consumer confidence, getting back to normal spending levels and availability of higher consumer disposable income.

We expect commodity prices to remain soft and the full benefit of the downward movement in prices to impact largely in the second half of the year after considering the inventory impact. Extent of adjustment to price or scheme discounts will be determined by the premium to be maintained versus competition. Our cost management actions have been effective, and this can be seen by the reduction in discretionary costs affected during the quarter. We will remain watchful over our discretionary spend in order to ensure profitable growth.

That concludes our opening statement, and we can now open the line for questions.

Moderator: 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.

Abneesh Roy: My first question is you have given for May and June; how many shops are open. Does it also correlate with business? So, was the business in May broadly 50% of May last year and June was 80% of June last year? Is it correct to understand like that?

Pradip Menon: So Abneesh, we have given you, obviously, the quarter broad market conditions in terms of outlets opening and so on and so forth. We have not really given a month-by-month progression of sales. Suffice to say, as I said, that it has been a positive momentum from a situation where April was near zero to a part recovery in May and to a much more significant recovery in June. We have seen that recovery momentum continue into July. So, I think that's a broad sense that we can give you.

Abneesh Roy: But July, has it further accelerated because now most...

Pradip Menon: Yes, July has accelerated. As I mentioned in my opening statement, we are seeing on 2 fronts,1) As the lockdown eases, we are seeing the return to growth faster than at least we had anticipated. 2) our Emerging India business, which is covering rural and small town, that is recovering very fast. In fact, growing, as I said, double-digit over the last 2 months. Similarly, an important portfolio, which is our retail construction chemicals is also growing double digits. So, there are several pockets where growth has returned, and the momentum is continuing into July. July has been a better month than June.

Abneesh Roy: Sir, you invested in the e-commerce furniture companies and home decor e-commerce companies, so obviously, now corona has changed things significantly, maybe a bit more on the adverse side. So, what is the learning? and what will be the thought process on further investments in these companies or into similar new opportunities? Is there some change in terms of thought process because of COVID?

Pradip Menon: I'll give you a sort of a broad picture. So, in our view, it's 3 months or 6 months, etc. may or may not be a right time frame to really take a call-in term of strategy. The reason why we were investing in some of these companies is, it is a fact that we want to be in the right place as a pioneer, as a company where we have really built some of the categories. The changes happening in that, those categories and the ways of doing business, we want to be in the know of things and be clear on the developments in the marketplace. Therefore, any such development which happens, we want to be sure that we are really up to speed, and we are able to respond accordingly. The fact that a particular quarter something has happened may not necessarily change our point of view. As I said, as a responsible corporate, we'll be, of course, very cautious and we'll be very measured in the kind of investments that we'll make. But our overall long-term strategy remains unchanged and the rationale for investing in these companies have not undergone any drastic change.

Apurva Parekh: I think, just as you said, our rationale of investment in these companies was to get a closer look at this emerging companies in our space as well as to collaborate with them for mutual benefit. So, we are working with them in this direction. We are also seeing closely that what is the impact of COVID on these kinds of companies. Once we have a better sense of it, then we can decide about future investments.

Abneesh Roy: Right. My next question is you are seeing a stronger recovery in construction chemical and DIY. So, what is the reason for that? And paint companies are also getting aggressive here and DIY also. So, is that a cause for concern?

Pradip Menon: Yes. So obviously, we have said that the construction chemicals, there is a season here. Some of the regions, there is pre monsoon, some region monsoon has completely set in. So, there is a pent-up demand also coming through in this space. From a broader perspective, it is a fact that the entire construction chemicals and waterproofing area, the kind of size of our market is significantly less compared to more mature markets. So, the market is also growing. And there are players who are there in that space. We believe it will be good for the market itself. The market itself grows. Competition is helpful in such scenario to build usage and consumption. So that's the way we look at it.

As I said, we are seeing strong demand, particularly, as I said, in the rural, semi-urban areas. We are also seeing, wherever the lockdown ends, even in the metros, we are seeing demand returning quite sharply. So, at this point of time, we don't see a concern from that perspective, from a particularly competitive or any other perspective.

Apurva Parekh: No, I think you also asked about DIY. DIY products, we have a fairly good portfolio, strong brands. We have been in market for a very long time. On and off, there have been various companies which compete with us in this segment. We have not seen or noticed any significant change in competition dynamics.

Abneesh Roy: So,2 follow-ups here. Do you need to address some of the gaps because the paint companies have come up with, for example, spray for the tiling and anti-rusts, all these are DIY? So, wanted to understand if you already have this?

Apurva Parekh: No, we don't have a spray paint. If you're asking, do we have a spray paint in our portfolio, we don't have a spray paint in our portfolio.

Abneesh Roy: Sir, spray for tiling and anti-rust, not exactly paint.

Apurva Parekh: Yes, but these are different types of products. The DIY is a very broad category of DIY. We are focused on DIY adhesives and sealants, products like Fevikwik, M-Seal, Steelgrip and products of that nature. So, the products that you just referred are different than what we have, different products for different applications.

Abneesh Roy: And sir, waterproofing, just one follow-up. So, in adhesives, for example, I don't think there is any credible pan-India competitor to you. But in waterproofing, you have got all these paint companies, which are much more aggressive. So, in your waterproofing, would you need to be much more agile, much more aggressive than adhesive because the competitive profile is very different.

Apurva Parekh: See, generally, in any segments, we need to be agile and we need to be watchful of any competition. I would not say that we should not be that in adhesive or some other segment. Being agile and watchful is very, very important. Within construction chemical, as you all know, construction chemical is a very broad category with a large number of different end users. There is a certain consumption by painters, but there is a lot of consumption which is by masons or construction contractors or waterproofing contractors, large contractors. So, there are very different type of end users, and there is a very wide portfolio of construction chemical products. So, products which are used by painters, yes, paint companies have certain advantage. Also, what paint companies have done is that they tried to convert some of their traditional products like primer or topcoat into waterproof products, in a way, upgrading their own products. So clearly, they are trying to educate their painters to use more value-added products, and they have a significant strength amongst the painters. But this is, again, a very large market, as I said, with very large number of end users, very different end user, small part of that is occupied by painters.

Abneesh Roy: Are you targeting the painters? And is it a small portion? You said it's a small portion, sir.

Apurva Parekh: We also target. Abneesh, I think we can separately cover the construction overall strategy, otherwise our quarterly call will just go in that. But yes, we have a range of products for painters as well, and maybe we can cover separately this, about how we are approaching this segment.

Moderator: Thank you. Our next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance.

Keyur Pandya: So, my question is on the Consumer & Bazaar segment. So, if you can dissect the growth within Consumer & Bazaar, seeing adhesive and sealant and construction chemical, as you show in the pie chart, how the recovery has been in these 2 subsegments and the current trend among these 2, then it would be helpful.

Pradip Menon: Yes. I think we covered broadly these points in the opening statement. See, what we are calling out is, as far as the quarter is concerned, we know that there is an impact, right, across all categories and across all regions. What we are talking about is how has June and July been in terms of recovery. We are clearly calling out to you following aspects. The fact that our Emerging India business, which is our rural and small-town business, that has returned to double-digit growth. Now that is across number of segments, which includes adhesives because that is more driven by region and size of the smaller markets. They are covering or straddling across number of product segments. The growth has returned across all these elements, whether it's adhesives or it is construction chemicals so on and so forth. The point we are saying is the overall performance of the business, if you look at it, the one to call out and where we're seeing strong demand and growth, that's where we called out DIY and retail construction chemicals. All our categories have improved month-on-month. That's the kind of message that we want to give as far as June and July. July has been better, much better than June. June, as we have already called out, has been significantly better than May. So that's the kind of detail.

As far as the individual subsegments within Consumer & Bazaar is concerned, that's not something we really talk about in a quarterly conversation because it just creates confusion. Within quarter-on-quarter, you'll have all these huge variations that will happen in a market like this. It won't help you in getting a trend or a proper analysis.

Keyur Pandya: Okay. Just 1 follow-up on this. So, what would be the size of this Emerging India as a segment or cut out? How large it would be as of now for us?

Pradip Menon: Yes. Last year, on a full year basis, broadly 30% of our business was Emerging India in the Consumer & Bazaar segment. This year, of course, given that it has performed better than the other parts of the business, its share would have gone up. But on a sort of longer-term trend basis, it's about 30%.

Keyur Pandya: Okay. Understood. And last question from my side. So, the basic point I just wanted to understand is that apart from construction chemical, one of the large cash cows for us is the adhesive, dominated by Fevicol brand. So how that has performed? Because if I am not wrong, even before COVID, because of the real estate led challenges, the growth was not as high as some other segments. So, what is the situation there, I just wanted to understand that.

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Pradip Menon: Yes. So again, even as far as adhesive is concerned, the similar story of whatever we called out in our opening statement is valid, in terms of recovery between April, May, June, July. There is absolutely no doubt in terms of the fact that when you have requirement of furniture making, let's say, inside the house, there will be certain hesitations of the consumer to bring the contractor in or to bring labour into the house. Therefore, that is the action that we are driving there. It is recovering slower than the construction chemicals, which has already moved into a double-digit category. However, the challenge there is, how do we, educate the contractors to follow hygiene and workplace safety measures. And then we are also in a way linked with the consumer confidence around the pandemic, right? So that's the other element, which we must have in our mind. So, which is why that recovery will not be at the same pace as the construction chemical side.

Moderator: Our next question is from the line of Prashant Kutty from Sundaram Mutual Fund.

Prashant Kutty: You said that July has also seen a bit of recovery. How much of it would be pipeline filling? If you can probably highlight over here because like you said, we only started up only around May mid or May end. So how much of it would be actual regular growth, which is happening? And also, if you could just tell us what would be the share of, let's say, a rural or a let's say, a Tier 2, Tier 3 town versus, let's say, metros and Tier 1 for us?

Pradip Menon: The second part of the question I didn't understand, because I thought I just answered the rural part...

Prashant Kutty: No, I was understanding in terms of, let's say, how much of it probably has been filling as far as the primaries part of the business is concerned, around June and July? Because I believe there would have been some pent-up demand. And how much of it, let's say, is pent-up demand, regular demand for that matter? And that's what I was basically trying to understand.

Pradip Menon: Sure. See, I think, obviously, it's a difficult question to really answer, explicitly in terms of whether it's pent-up or not because you can never get a clear answer till you see a trend for a longer period, and we've seen just June and July, 2 months, to really have a point of view. Having said that, just 2, 3 points I want to make on this, 1) wherever the pandemic has sort of retreated, the recovery has been quick. So that is one sort of reassurance for us as a business. 2) from a stock in the market - we don't have large pipeline of stocks in the market. Our stock levels in the market, between the distributor and the dealer, we sell-in to the distributor and the distributor in turn sells to the dealer, the overall pipeline of stocks is also very, very limited. So, it's not like we are having any sort of stock movements between pre-pandemic and now. In fact, our levels of stocks in the market would be at the same level pre-COVID or maybe even less. So that is the second point of reassurance.

3) really, I agree with you that unless we see August and September, maybe another 2 months of performance of these various markets, you can never arrive at a complete conclusion whether it is

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pent-up demand or return. But certainly, when you are seeing multiple markets the same thing happening, that does give us some confidence.

Prashant Kutty: Okay. And I'm sorry, I just missed out. You said, what will be the share of, let's say, Tier 2, Tier 3, Tier 4 in the rural versus, let's say, Tier 1 metros?

Pradip Menon: Yes, yes. So, as we call it, the rural and small-town India, which is obviously the Tier 2 towns. These ones are approximately 30% of our business.

Prashant Kutty: Okay. And we are saying this is growing at double digits?

Pradip Menon: Yes

Prashant Kutty: Okay. Second question is on the gross margin side. I believe, this quarter, if you look at the sequential decline, while the ramp continues to be benign for us. So sequential decline, is it anything to do with the fact that the scale of operations was lower or anything to do with that as to why the gross margin came off on a sequential level? And at a most sustainable level, what should one assume the gross margins to be?

Pradip Menon: Yes. So really speaking, there are 2 or 3 points here on sequential gross margin, we did say that there is a trending down of spot prices in the commodity prices, but those have not yet reflected in our P&L purely because of inventory, the raw material and finished goods. Even where we have seen, in the case of VAM, a drop-in dollar price of around $20, that has more than compensated by the impact of the rupee devaluation, which happened within Q4 and Q1. It's more of a timing thing. You shouldn't look at the spot prices of rupee-dollar just now. But the time when we've done the deal and the foreign exchange contracts, there is a devaluation which has hit the P&L. Therefore, our costs in some of the materials, including VAM in Q1 is higher than Q2 in rupee terms.

We did have in Q4, certain one-off credits coming more from annual discount that we get for our sourcing from vendors. And that has come into Q4 days, which obviously doesn't repeat in Q1, so depending on the volumes, etc., you get credit.

Apurva Parekh: That is more volume oriented, actually.

Pradip Menon: Volume oriented, yes. So now what we'll have to see is the level at which we are seeing Q1 margins, these are obviously the margins that we see going ahead. We don't give really a guidance at this stage. It's difficult to guide in this kind of a market. The point we wanted to say earlier also in the opening is, even if the dollar prices fall or even the rupee impacted prices of our raw materials drop, we really can't say in terms of EBITDA margins, how this will finally translate our gross margins because we will need to also drive volume. We need to have a sustainable volume growth as well. So, what part of the drop-in material costs we'll have, we will pass on in terms of price reduction, in terms of discounts and schemes, etc. What kind of premium we need to maintain versus competition, all these factors are a bit obviously difficult to gauge. Suffice to say that we are expecting raw material prices to be soft in the second half of the year. But what part will pass on, what part will get retained, etc., is difficult to sort of envisage at this point.

Prashant Kutty: And your mix, just correct me if I'm wrong over here, let's say, the likes of DIYs and the likes of construction chemicals would be higher margin as compared to, let's say, the likes of adhesives. So, isn't the mix favorable? Just correct me if I'm wrong over here.

Pradip Menon: No, it will be very, very miniscule. The impact will be very miniscule in this. I mean, there are -- various categories and all are operating at, quite substantial margins, decent level of margins, yes.

Moderator: The next question is from the line of Avi Mehta from IIFL.

Avi Mehta: I just wanted to understand the consumer trends witnessed in the post-COVID world, especially in terms of the willingness to allow applicators into homes and how do basics versus premium products, how are they behaving, if you could share that?

Pradip Menon: Yes. I think, the first part I'll take, and I'll request Apurva to cover the second. As we said, the consumer behavior, there are various parts to this. There is a part around the pandemic and the consumer confidence, right, to allow labour inside the house. There is no doubt about it. Therefore, our job as a company is to make sure that we connect. During this entire period, we have really invested a lot on our digital connect through our sales teams with our end users; we even do outlet visits remotely. That is the kind of connect now we have with our end users. Therefore, what we have been trying to do during this period is to educate our contractors, educate the various end user connects that we have on hygiene and certification. So, the certification is such that, that gives the confidence to the consumer that the person follows all the right methodology and can then be allowed inside the house for the work. We are seeing success. I mean the way I would see is that it is very difficult to say whether there is -- what part is success and what is not. But the fact that we are getting growth back in June and July gives us some confidence that this is indeed working. And our connect with our markets and our end users is really working and therefore we are seeing an improvement in confidence of the consumer and allowing people inside. But of course, the complete confidence will only be back when the pandemic is under control and for that, your guess is as good as mine.

Avi Mehta: Sorry, just to kind of clarify, you are saying that there's an increased confidence in allowing applicators back into homes for new applications? Is that what you are seeing?

Pradip Menon: Yes. So, when you say new applicators, I didn't get that point.

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Avi Mehta: You said towards the start of the call, part of it may be pent-up demand was not very clear on that part. Was this that if the person was also just wanted to get his job done and your kind of did it or was it more that you're seeing that people are actually willing to now explore and get these reconstruction activities back online?

Pradip Menon: See, we are seeing construction activities more, as we said, in the rural, small town. Those areas, we are seeing the new construction pieces also progressing, less than the metros, to be frank. But the jobs to be done wherever they are to be done, in some cases, it could be urgent repairs or something which gets a priority. But we are seeing that as the pandemic recedes those jobs are also coming. But obviously, the bigger share of jobs is coming in the small town and the rural space, less in the large metro towns where there is a pandemic.

Avi Mehta: Perfect. And the base versus premium?

Apurva Parekh: Yes. I'll just also add to the first part that still it is very early days. So, it is very difficult to get any clear sense of what consumer behavior is and how will it be going forward. But from early signs of what we see that the areas which were less impacted by pandemic, the areas which had shorter period of lockdown, seem to be appearing faster. So essentially, as period of time passes, we will see that the consumer behavior may again start returning towards normal. But today, it is anybody's guess, we have to see how things evolve as we all are right in the middle of the situation. But many parts of India, the way they have recovered, is a good sign. But clearly, we have to be cautiously optimistic and watch how it evolves. Base versus premium also - first of all, our entire portfolio is of good premium sort of products. Some of our premium products are meant to get work done faster. So, people clearly prefer them just to get the work done faster even before COVID. I cannot say that we have seen some noticeable change, which we can attribute to this. There could be some change happening. But however, again, it's very, very early. We barely have had 2 months of sort of sale recovery going on. So, as months pass, we will see.

Avi Mehta: Okay. And just a follow-up. The increasing Emerging India salience, does that in any way imply either a lower gross margin because of mix or that doesn't have any impact?

Apurva Parekh: No, no, no, it doesn't imply that at all. Our portfolio is more or less similar. When we say Emerging India, it covers all the small towns and the rural area. There is a fairly vast population there. All our leading brands are sold there. There is no significant change which would impact the gross margin.

Avi Mehta: Okay. And lastly, from the commentary that you have given, it seems that, obviously, waterproofing recovery has been ahead of our estimates. Is the impact that you are seeing or this aversion of consumers to allow applicators more in the adhesive side, is that a thing that we can take a look at?

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Apurva Parekh: I think we should not read so much into such a short trend. As we all know, 1 quarter is a short period. Some of these comments are based on only June and July. Out of that, also in some product, it could be seasonality, in some product there could be a greater pent-up demand. So, I would really not like to guess or comment on it. I think we need to let the time pass. Only thing, as Pradip covered, is that the recovery pace has been good in June and July in many, many parts of India. But we would not like to read too much into it. We would like to let another few months go to get a better trend of what is happening.

Moderator: Our next question is from the line of Anand Shah from Axis Capital.

Anand Shah: Can you comment on the domestic subsidiary, Nina, ICA, Cipy and all. How they are progressing? They had a much tougher Q1. So, are you seeing any recovery there?

Pradip Menon: Yes. So, you're absolutely right. I think even before the pandemic, Nina and Cipy both of them have got exposure to the real estate sector. In case of Cipy, there is connect with the auto sector. Therefore, both of these sectors have been under pressure. We are obviously seeing challenges there. Again, very difficult in the real estate to predict how this is going to emerge. So, I think we'll have to just wait and watch. Right now, we are trying to make sure that we get the basics right. We get the business, do the fundamentals right, make sure that we have the people on board because the kind of work we do include waterproofing, these are relatively specialized kind of work. So, we also want to make sure that we have some of those people and labour available. So, when the demand recovers, we are in a position to respond to the requirements. But given the nature of that subsidiary and the nature of exposure, it will be a longer sort of recovery path is what we see. Again, very difficult to predict the exact timelines.

Anand Shah: Okay. And we also saw a substantial erosion in profitability, so any steps you are taking there to curtail losses or improve profitability a bit because it is going to be a slow buildup in terms of revenues.

Pradip Menon: Yes. So, in all the subsidiaries, it is the same approach that we've taken in Pidilite as a group. All discretionary costs are under close scrutiny. At the same time, we are trying to balance between taking structural actions because the danger of doing that is when the recovery comes, then we will not have the right resources to respond. So, we are just waiting and seeing for at least a couple of months to see whether things are going to return quicker. But all fundamental things like discretionary cost cuts and tightening of belts, all of those are being done in the subsidiaries.

Anand Shah: Okay. On international as well, I mean, how are things progressing there? I mean, they relatively performed better than both domestic and subsidiaries, so I'm assuming because the COVID setting in different parts of the world in different time. Is that now on full path to recovery? Would it now be, let's say, on path of growing at least in some parts?

Pradip Menon: Yes. Pandemic had a bigger impact in the SAARC region than the rest of the geographies, actually. Even there, we have seen recovery in June and July. Overall, we've seen growth in June,

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and we've seen that coming back, that similar trend in July as well. We are seeing the companies in our international business, in this kind of a situation where I think the story from the past, even last year, if you recollect, it was a double-digit growth and a significant improvement in profitability performance, and we are seeing that trajectory continuing at this point of time.

Anand Shah: Okay. No, that is great to hear. And just lastly, on the maintenance and Other Expenses. Can you just highlight as to what would be the kind of advertising cut you would have taken in this quarter on Y-o-Y terms?

Pradip Menon: I'll just give you an overall picture. You have seen that in terms of our overall reduction in overall sales - our overall drop in revenue has been in the region of about 56-odd percent. We have tried to make sure that barring the costs like staff cost, etc. which obviously cannot respond in a similar manner, and there will always be some certain costs like admin expenses, etc. which cannot respond. All other costs, we have made cuts in are largely in proportion with the sales.

Anand Shah: Okay. But I mean now as your revenue progresses, you're calling out that June and July are looking much better relatively in terms of recovery and all. I mean, you would see a proportionate increase in the other expenses as well, right?

Pradip Menon: Yes yes. Absolutely.

Anand Shah: Okay. And any part of these expenses would be like a structural saving? I'm assuming you would have actually done cost cut push, so at least some part would sort of come down.

Pradip Menon: Quite difficult. Most of these are things like travel, etc. People are not traveling, and therefore there is a reduction. Now once travel restrictions ease, there will be travel back. Whether it will be the similar level as pre-COVID or not, with all the various digital actions we have taken or actions we've taken in terms of more digital connect, difficult to fathom at this point of time. But a large part of it may not be fully sustainable, but some parts could stick. Very difficult to predict that proportion.

Anand Shah: Okay. This June, you called out that 80% outlets are now open. I mean, this should be across your channels, right, because you have very, very dispersed channels, I mean, different channels and all? And so, this would now be back to what, 90-odd in July or so?

Pradip Menon: Yes, yes, yes, 90-plus.

Moderator: Our next question is from the line of Arnab Mitra from Crédit Suisse.

Arnab Mitra: My first question was on the woodworking adhesives. Any sense of how much does this commercial real estate construction use woodworking adhesives in terms of, let's say, retail shops, offices? Because that is one segment where we could see continued impact even for the next few quarters. Is it a very small part of, in your sense, woodworking adhesive demand? And any sense on what's happening there?

Apurva Parekh: See, I don't have an exact figure because before we never had to track it that way, and the channel being common, it's very difficult to segregate. But I would not think it is a very large part because if you see the amount of consumption across various different end users, I don't believe commercial real estate by itself would be a very large consumer.

Arnab Mitra: Okay. Understood. And my second question was on the July recovery. I mean, at least in some industries, we've seen the second round of lockdowns having a negative effect on the momentum that was building up. So, have you not seen any impact of that? Or is it that there are other cities that are recovering, which are kind of making up? And any sense on how the second round of lockdowns have played out for demand?

Pradip Menon: Yes. So, you are right. I mean, it is a very difficult situation to predict. For example, we were seeing a stronger recovery in the South. Some part of it has sort of gone back in July because of the fact that we've had multiple lockdowns in some of the key locations in the South, as an example. So, we are seeing the pluses and minus. Overall, we are seeing things moving forward, which is why we've called that out in our opening statement.

Arnab Mitra: And just 1 follow-up on this. In terms of the destocking question somebody had asked, I think definitely, today, as you said, stocks are not above pre-COVID levels. But versus where they were in early June, I'm assuming things would have recovered. So, any sense of how much could be the destocking in the month of June and July? Is it something which is very large, which could have upped the number? Or you feel reasonably comfortable that the trends are more or less in line with offtakes in the market?

Pradip Menon: No, no, we do not have any significant stock. I mean, even during this period, we have not had significant stocks increase in the market. See, the way we work is, the process is that – it is a replenishment process to the distributor. So, there is a certain cover. Based on that cover, we replenish. So, it's not like a push system. Therefore, the secondary sales is what sort of drives the movement in stocks at the distributor end.

Moderator: Our next question is from the line of Jaykumar Doshi from Kotak Institutional Equities.

Jaykumar Doshi: My first question is, during this COVID period, is there any change in the way your sales engage with the distribution? And the question comes from the perspective that your employee cost as a percentage of revenues is almost twice what it is for paint companies, and that is partly because of the breadth of the portfolio and the verticalized sales structure you have for different verticals. So, do you think that post COVID, have you relooked at your sales organization and structure? And do you think there are more efficient ways of engaging with dealers and the entire channel with a much leaner organization?

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Pradip Menon: See, I think the percentages can be misleading because obviously in a quarter like this, the revenue itself is low...

Jaykumar Doshi: Sorry, not specific to the quarter, but I was generally referring to your overall FY '20 employee cost as a percentage of sales was about 11.5% for India business, and which is usually about 6% for paint companies. So, this is more that has COVID changed the way you engage with? Or will it change the way you engage with your network and dealer?

Pradip Menon: Yes. So, I think the first point here is that, the way we are just comparing it to paint companies, which have a particular model. So, we have got an aggregation of businesses here. Our model, including the fact that we have to focus on multiple products and a fairly complicated portfolio, does add to the overall requirement of a structure. Having said that, during COVID, obviously, we have had to connect with our distributors, with our end users in a form of digital format. Obviously, there are some lessons and learnings coming out of that. At this stage, again, it's very early for us to say, is this a sustainable way of operating? Does it change the model we are operating? I think too early days to really give a response. But obviously, like we have said before, we are looking carefully at all of our costs, and including our organization structure costs. If we find that there are opportunities for optimization, we will certainly take those actions, but they are not really the priority at this moment. Our focus is to get the growth back on track, make sure all our fundamentals, which is getting the volume growth back, make sure costs are under control and also respond to the new environment. These are 3 sort of focus areas that we are looking at.

Apurva Parekh: Yes. I think just a little bit I will add. I think, Jay, clearly, we are changing the ways in which we work using digital and other technology to engage with both channel and end user. So that is happening. In future, it could result into some evolution of the structure. But as Pradip said, this is not the priority. Right now, the current priority is to be ready to service the market as the normalcy returns. So, we are not doing anything which is immediate. But certainly, we are making our working far more efficient by using the technologies which are available. Pandemic has sort of forced us and many other companies to start using more and more technology in terms of how we work with end user influencers and the dealers.

Jaykumar Doshi: That's helpful. And second question is, you have very strong capabilities on waterproofing in Nina and Percept in terms of services capabilities. Is there an opportunity for you to use those capabilities or expertise to sort of strengthen the retail side of the services business also in waterproofing, particularly because we are seeing quite a lot of weakness in Nina and Percept overall from demand perspective? So, do you think you can use that expertise to strengthen your Dr.Fixit services. When we call up the customer service care, we are attended by third-party contractors, waterproofing experts. Do you think there is room for Nina Percept experts to participate in?

Apurva Parekh: Currently, our focus of Nina and Percept is on the large construction. We believe there is a very significant opportunity in terms of large construction, specialized high technology, waterproofing related work. Nina occupies a very unique position in that market, being the largest and the strongest. Hence, it is going to focus on that market segment. As far as the retail, the service-oriented construction work, that's a very, very different market. Here, we work very closely with waterproofing applicator, and we can recommend applicators to people. But it is a very localized work. As of right now, we believe it is best served by the local waterproofing applicators, and we work very closely with them. So currently, there are no plans for Nina to enter that segment. It is going to service the opportunity which it has.

Jaykumar Doshi: And the final one. Sir, VAM prices at $6 50 per ton is probably the lowest, at least in dollar terms that we may have seen in the past 5-7 years. So, are you considering some opportunistic buying or sort of stocking up of inventory, raw material inventory in this scenario?

Pradip Menon: Yes. So, what we normally do is that, ultimately the requirement is driven by the business and the need for a particular level of stock. As I said, the inventories, the buying timing, etc. will be determined by the demand from the market and our current raw material inventory, finished goods inventory stocks. Therefore, that is the way we look at it rather than buying without requirement. So, we will buy when there is a requirement and accordingly consume. We can always, of course, contract for a future date. Those are the things that we will do.

Moderator: Our next question is from the line of Chirag Shah from CLSA.

Chirag Shah: My question is a bit long-term - on the long-term strategy. First, on our manufacturing and supply chain capability, correct me if I'm wrong, but we currently have about 23 manufacturing plants, and we are in the process of setting 12 more plants by 2022, if that number is right. What are the long-term efficiency gains that we are looking at in terms of logistics cost and supply chain efficiencies? And what is the overall CapEx that we have for the next 3 years?

Pradip Menon: Yes. So, in terms of supply chain, I think, as you rightly mentioned, we continue to invest behind our supply chain to make sure that, obviously, you meet the demand requirements in the market. In terms of the efficiencies that are coming through from the supply chain, it's a consistent process. It's a consistent improvement process that we follow. Across the various supply chain factories, we have got a number of parameters to evaluate performance in terms of costs, in terms of dashboards. The process, that continuous improvement has been happening over the years and it will continue. It is very difficult to put a number as to how much will that give us benefit in terms of costs. So not really able to give a particular number at this point of time. In terms of CapEx, you would notice from our historical trend, typically in a normal year, we would spend between 4% to 5% of our revenue. And that's the kind of CapEx that we have spent. In a year like this, it could be difficult to put a percentage because we may need to spend for the future. For example, in terms of powder plants or in terms of any other category that we are investing, we have JVs which are underway where we will need to invest, where the JVs have signed up and we see potential into the next financial year. So, we would spend CapEx based on those requirements. But typically, long term, we end up spending about 4% to 5% of our revenue as CapEx.

Chirag Shah: Sure. But just to be clear on that part, 12 plants on 23 plants. I'm assuming that it's not a proportionate addition. But it's a fairly large addition to the capacity. Are we looking at also more in-sourcing going forward?

Pradip Menon: As we are expanding and getting into adjacent categories, you would have seen the number of joint ventures we have got into in the last 1 year. We need to operationalize those entities. We need to invest and get those new categories underway. So there, there are plants and there are investments that we need to make. These need not be large spends. Each of these plants may not be large spends, but these are spends which are for a particular category or subcategory which at this stage could be relatively smaller in terms of demand. But this will, in turn, pick up, expand as time goes. So, don't read too much into the number of plants, whatever we have communicated earlier. It is more the CapEx spends on a long-term basis. These are the kind of numbers that you should look at from a sort of trend.

Chirag Shah: And the second question is on the number of SKUs that we have. We have 500-plus SKUs right now. And just connecting that to the earlier question also, in terms of having more efficiencies in terms of servicing the market and employee cost, this is a good opportunity to rationalize some of the SKUs. Are we looking at SKU rationalization and bringing in more efficiencies from that?

Pradip Menon: Yes. So, this is a continuous process. You're right that when you have a long tail which doesn't give enough revenue, then that can lead to inefficiency. So, this is a continuous process in Pidilite. We have formal reviews, which make sure that these kind of number of SKUs or nonperforming SKUs are weeded out. However, we need to be a bit patient. Many of the investments we make and many of the categories that we are in, that requires a little bit of patience to get growth. So, what we do not want to do is weed them out too early or too soon. So, we make that balance, and we want to obviously make sure that those nonperforming SKUs over a longer period are weeded out and we do that. That's a continuous process.

Chirag Shah: Sure. And just one last question. In terms of the pioneer categories, we have Roff, Jowat, etc. and as Apurva rightly mentioned earlier, the auto construction chemicals is a very broad category, and with very different end users. So 2 questions here. I mean, are there opportunities to address some of these white spaces through inorganic growth? And secondly, on some of the categories like Jowat, which apparently appears to be like a B2B category, but there is a B2C market, how do we address the branding part over there?

Apurva Parekh: Yes. So, I think in terms of white spaces, as you know, in construction chemicals, just in last 1 year we have done 3 inorganic things. We did 2 joint ventures, with the companies in Europe in terms of construction chemicals. We also did a majority acquisition of tiling and stone chemical company in India with brand name Tenax. So, there are clearly opportunities and white spaces, and we have been active in that. And we continue to scan the market for suitable opportunities.

As far as second question goes, Jowat products are largely B2B related products. They are joinery product, but they have a very strong brand recognition in that segment. So largely their consumption is B2B, which is largely by joineries. There is not much B2C kind of consumption opportunity. It is not a retail kind of a product. It is a product that is used by joinery. So, there is no branding-related conflict or any issue that we see.

Chirag Shah: I completely agree, Apurva. But as we have discussed earlier as well, if we look at MDF market, there is part of the MDF market which is also becoming more B2C. So, from that perspective, long term, is there an opportunity to brand some of the Jowat products in line with our Fevicol brand

Apurva Parekh: We don't see that as necessary, but we will evolve the strategy as and when it's required. As of right now, we don't believe that there is a need of that brand in a retail market. But in future, anything can be done. So, we have Fevicol in retail, which services most of the applications.

Moderator: Our next question is from the line of Ritesh Shah from Investec Capital.

Ritesh Shah: Sir, in the initial remarks, you made a point of extent of discount versus premiums. Sir, how should one read into this balancing aspect going forward?

Apurva Parekh: Discount versus premium products you are mentioning?

Ritesh Shah: Yes, sir. I think in the initial remarks you mentioned

Apurva Parekh: No, I think you were asking about premiumization of products. There is nothing called discount. What I was trying to answer is our entire portfolio, all brands are premium priced, premium positioned. It is not that we have a discount or anything of that nature. I think the question earlier was, are we seeing the trend moving more towards regular or more towards premium? Did you have a follow-up question?

Ritesh Shah: No, no. Not on that. I have another question. Sir, adhesives and sealants are a significant part of the sales mix. From a chemistry point of view, how do you see this evolution going forward? Like we understand PVA is something which is big. But what is the thought process of chemistry-wise evolution of adhesives and sealants as a basket for us going forward?

Apurva Parekh: No, chemistry-wise, the adhesive and sealant, new chemistries evolve from time to time, and then we introduced various products to beat the evolving chemistries. Over a period of time, if you see in Pidilite's journey, which we started with 1 product, which is polyvinyl acetate-based white glue. From there, today, we cover a wide number of chemistries, which have been introduced over a period of time. And that process continues. As you know, R&D and innovation is very important for Pidilite. We have an R&D center in U.S., Singapore and a large R&D center in India as well. So, we continue to keep track of new chemistries, work on them and develop products.

Ritesh Shah: Correct. But sir, do we have any targets in mind to reduce the exposure that we have to Fevicol? It is our main stay. But if one had to de-risk or diversify into this particular segment, chemistry-wise, do we have any targets over your running new product launches that one should expect?

Apurva Parekh: As I said, the company started really with Fevicol, but over a period of time, the dependence on Fevicol has come down significantly. We have now large number of product portfolio, product categories. Within adhesive and sealants, we have several large brands with different chemistry, like Fevikwik is a different chemistry, M-Seal is a different chemistry. And even within Fevicol, there are different chemistries which operate. So, we are no longer dependent on any 1 chemistry or 1 product.

Moderator: Our next question is from the line of Arun Baid from BOB Capital.

Arun Baid: Sir, you did mention that we have seen double-digit growth in Emerging India, which is like 30% of our business. Can you just throw some light on remaining 70% of the business? How that has panned out over the last 2 months, particularly?

Pradip Menon: Yes. So obviously, what we wanted to give you was the highlights. We are in the new quarter in July so obviously, the details of this quarter, we would be covering in the following quarter's presentation. But clearly, what we wanted to give out are the areas where we are seeing positive momentum coming through. We also said that there are parts of our business, like the metros, where there has been an impact and there has been a continuous impact. Though even there, we have seen recovery happening. So, these are the 2 parts from a geographical lens. From a product portfolio lens, there are 2 areas, like DIY and construction, where we have seen significant growth return in the last 2 months. We've called that out. The remaining portfolio has recovered, but it is not at the same level that we would say as the remaining part of the portfolio, which is why we have called those 2 out, right? So, there is nothing further in terms of information we have, in terms of split.

Arun Baid: Sir, the reason why I asked this was because last year, in Q2 specifically, we did see degrowth in our PVC business. We had negative growth in that business. So, the base is favorable. And on that context, the question was more interesting, is that, are we seeing some more traction because of lower base? What I guessed from you is that despite the lower base, it doesn't sound that single portfolio has come back to some sort of stability. Is my inference correct, sir?

Pradip Menon: No, I didn't exactly understand your question. You are saying last year Q2?

Arun Baid: We had a negative volume growth in last year. So, the base is very favorable for us for this Q2. Is that helping to some extent the numbers to be a bit better for us?

Pradip Menon: No, I think what we called out was June and July together. We are not really talking about Q2 as a guidance or anything. We're just giving you the signals of what we are seeing in the market. As

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we said, again, August and September, how will it pan out is like it is anybody's guess. But whatever we have seen and whatever we have experienced, we have called out here.

Moderator: Ladies and gentlemen, that was the last question. I now hand the floor back to the management of Pidilite Industries for closing comments. Over to you, sir. Over to Mr. Parekh and Mr. Menon for closing comments.

Pradip Menon: Yes. Just want to thank everybody for taking the time out, and wish you and your extended groups, please stay safe and good luck. Thank you.

Apuva Parekh: Thank you, everybody. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of B&K Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited to improve readability)