2nd February, 2021

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Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 29th January, 2021.

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
Q3FY2021 Earnings Conference Call”

January 29, 2021

ANALYST: **MR. PERCY PANTHAKI – IIFL SECURITIES LIMITED**

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 the Pidilite Industries Limited Q3 FY2021 Earnings Conference Call hosted by IIFL Securities 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 over to Mr. Percy Panthaki from IIFL Securities Limited. Thank you and over to you Sir!

Percy Panthaki: Hi. Good evening, everyone. Welcome to Pidilite's Q3 conference call. We have with us Mr. Apurva Parekh, Executive Director; and Mr. Pradip Menon, CFO to take us through this result. So, without further ado, I'd like to hand over to Mr. Pradip Menon.

Pradip Menon: I will begin with the summary of the business and financial performance for the quarter and 9 months period ended 31st December 2020. Consolidated net sales grew by 20%. Excluding the impact of the newly acquired Pidilite Adhesives Private Limited [Formerly known as Huntsman Advanced Materials Solutions Private Limited (HAMSPL)], the growth was 16%. Consumer and Bazaar segment grew by 25% and Business to Business segment by 3%. On YTD December '20, net sales declined by 12%.

EBITDA before non-operating income at Rs. 641 crores grew by 38%. Excluding the impact of the acquisition, it was 33% over the same quarter last year. This was on account of lower input costs and A&SP spends. EBITDA for the 9 months ended, stood at Rs. 1,223 crore and declined by 4% over the same period last year.

Stand-alone net sales grew by 18% with growth in Consumer and Bazaar segment by 21% and B2B by 10%. For YTD December '20, net sales declined by 13%. Robust growth was registered across all Consumer and Bazaar verticals, driven by continued demand momentum in rural areas and strong recovery in urban, including metros. Double-digit growth in B2B segment was led by resurgence in industrial and manufacturing activities.

The profitability for the quarter versus prior year was aided by favorable input costs and lower discretionary spends. However, with significant inflation in input costs during the quarter, margins will be under pressure in the coming quarters. Our key raw material, VAM, procurement rate over the last few months have increased from \$750 to \$930 then to \$1,200 and now hovers around \$1,300 per metric tonne. The consumption cost for VAM in the quarter which went by, in Q3FY21, was approximately USD 875 per tonne compared to USD 940 in Q3FY20.

Material cost as a percentage to net sales is lower by 121 basis points over the same quarter last year and higher by 137 basis points versus previous quarter. EBITDA before nonoperating income at Rs. 572 crores grew by 33% over the same quarter last year on account of lower input costs and A&SP spends. EBITDA for the 9 months ended stood at Rs. 1,142 crores and declined by 5% over the same period last year. Profit before tax and exceptional items at Rs 549 crores grew by 27% over the same quarter last year. PAT at Rs. 409 crores grew by 24% over the same quarter last year. Regarding subsidiaries, overseas subsidiaries performed strongly, reporting double-digit constant currency revenue and earnings growth. Domestic subsidiaries in the Consumer and Bazaar segment have shown healthy growth. Subsidiaries in the B2B segment have shown signs of recovery in the latter part of the quarter. In the case of Huntsman Advanced Materials Solutions Private Limited, which is the entity we took over from Huntsman in the quarter which has gone by, is now renamed as Pidilite Adhesives Private Limited, or PAPL, has shown sequential monthly improvement in sales during the quarter. There has also been improvement in EBITDA margins due to lower input costs and controls over discretionary expenses. The transition has progressed smoothly and as per plan. Business arrangements with existing manufacturers, tollers, customers, vendors have transitioned, and we are working on the go-to-market approach with distribution opportunities and brand strategy positioning for implementation in the new financial year.

We are encouraged by the Q3FY21 performance. The company is closely tracking the rising raw material and packaging materials with the objective to operate within the targeted EBITDA margins of 21% to 24%. Our focus will be on driving volume growth through investment in our brands, sales, distribution as well as consumer-relevant information.

Going forward, we remain cautiously optimistic on continuing robust demand conditions. That ends our opening statement, and I would like to hand over to Percy and the team for the questions.

Moderator: The first question is from the line of Anand Shah from Axis Capital

Anand Shah: Just 2 questions here. Firstly, on the demand. I mean we have obviously seen a very strong resurgence, 20%-plus in your Consumer and Bazaar business. So how much of this you would attribute a bit to pent-up from Q1, Q2 and to maybe delayed festive or to the construction pickup that we are seeing generally? So, some color on what the sustainable growth could be. And secondly, on the margins, you have alluded to the rising VAM prices, they have gone up substantially. I mean, next quarter, perhaps on a Y-o-Y, could be 40%, 50% up if this pricing remains. So, have you taken any pricing up already? Or what kind of pricing would you be looking at? Would it be broad-based? Any color on that as well.

Pradip Menon: I think the first point is on the recovery in demand. What we have seen is actually a broad-based recovery across all of our various businesses. In the past, when we came in and we had these conversations, we said, there is construction chemicals which is doing well, there are parts of the rural which are doing well. But now what we are seeing is all across, we are seeing demand. Metros have also recovered, so also urban. So overall, it is a broad-based recovery. We believe it is a combination of factors. The fact that the pandemic impacts have receded, that is one. There could be some impact of pent-up demand. We do not have much of an impact of festive season. Unlike some of the other industries which have peaking in during the festive season, that is not really a driver or not a significant driver anyway.

And also, finally, industrial activity is also picking up, which is reflected in our B2B segment. That also obviously has got an impact on our Consumer and Bazaar segment. So, it is a combination of factors. A factor which is difficult to, of course, also validate or sort of reconfirm is that in the current environment, many of the established players with supply chains and footprint across the country are able to respond to the situations of demand, the raw material availability and all this much faster and quicker versus some of the smaller players. And so there could be some impact also coming from that aspect. But I think it is broad-based what we are seeing, not just in pockets. And that is on the first question.

I'll also answer the second question. As far as margins go, we have not taken any pricing yet. Of course, on the B2B segment, what happens is, many of the B2B businesses, there is sort of arrangements wherein the pricing, etc., is linked with input prices. And therefore, in those cases, we have taken some increases. But they are not the largest business as you know, 80% of our business is Consumer and Bazaar. Now there, we are waiting and watching. Our intention is - we never do take on and pass on all of the price increase to the consumer. So, what we will be doing is a mix of productivity improvement, a mix of pricing if this sustains for some more period of time and with the focus that it should not be that volume growth gets impacted. So, it will have to be a balanced approach, not that we pass on the full pricing at this stage.

Moderator: The next question is from the line of Nitin Shakdher from Green Capital Single Family Office.

Nitin Shakdher: Can you give me a color on the distribution and the increase in distributors or the reduction in distribution? And second is in terms of advertising and marketing expenses vis-à-vis sales for the quarter, the percentages of the marketing expenses?

Pradip Menon: I will answer the second question first. See, as far as advertising and promotion is concerned, sales promotion is concerned, we had a practical difficulty in implementing some of our plans, given various disruptions in the market. However, the positive point is that as we ended the quarter, the spends are pretty much in line with our annual average. We typically spend A&SP between 3.5% to 4%, and that is the kind of range we have achieved at the end of the quarter. But obviously, we could not spend what we planned to spend in October and part of November, and therefore, the spends have been lower in the quarter. But going forward with the kind of expectations, volumes as well as plans that we have in place, that is the kind of range that we would be spending, advertising and sales promotion.

Nitin Shakdher: Okay. And the first part?

Apurva Parekh: The question was what is the increase in number of distributors?

Nitin Shakdher: I just wanted to get a sense of the distribution in terms of has there been a significant increase in distributors or a reduction in distributors? What is the color on that?

Apurva Parekh: See, we have a fairly widespread distribution across India. We cover most of the towns with population up to 50,000, and we are now expanding into rural area. There is no reduction in number of distributors. But on an ongoing basis, we do add new distributors in newly emerging area within larger towns and in smaller rural areas. So that is an ongoing activity of expanding our distribution and also the number of dealers.

Nitin Shakdher: Okay. My second question is in terms of is there any expansion which was planned for increasing the lines and then that means increasing the capacity or increasing the greenfield expansion on plants? Can you put a statement on that, at least what we can look forward to in the next 1 or 2 quarters if in case it is planned?

Pradip Menon: See, as far as capacity planning is concerned, in terms of CapEx, we spend typically between around 4% to 5% of our revenue as Capex, some of it is greenfield and some of it is expansion Capex and we continuously look at the demand projections when we plan this out. So, we have continued to spend on our capacity. And we, of course, do have a longer-term plan like a 2 to 3-year kind of horizon also. So, all of those plans have been crafted in the last few months. And we are ready to go. There is nothing specific to call out. We are continuing to invest even during these periods or even when there was a lockdown period, we continued to invest because we believe that the capacities would be required, and we need to be ready when the demand is up. So that is the overall approach on the capacity plan.

Nitin Shakdher: Okay. Congratulations on the steady set of results once again.

Moderator: The next question is from the line of Pratik Rangnekar from Credit Suisse.

Pratik Rangnekar: I had 2 questions actually. The first one is on the Huntsman acquisition. The last time we spoke, I think it was too early for you to provide any color on the kind of synergies or anything that you expect from that acquisition. Now since you have already had it for another, I think, 2 months or so, so any color on that, that you would like to provide on the kind of synergies you expect?

Pradip Menon: I think we had clarified that we would take about sort of 6 months to really come back and share a formal kind of feedback, but obviously, that is work in progress at the moment. We are looking at distribution gaps, geographical gaps. We are also looking at brand positioning, pricing, all of those elements are right now happening. Of course, costs also we are looking at in terms of overlap and cost between the Pidilite systems and the Huntsman acquired subsidiaries systems. However, the fact of the matter is it is on a stand-alone basis also quite a profitable entity. So, I think the priority will be on volume and top line growth there. Synergies on costs would be there but may not be as critical. So that is the thinking at the moment.

Pratik Rangnekar: Okay. Fair enough. And just another thing on the consumer business. In your release, you mentioned that it seems like there is a gap between the value and volume growth. It seems volume has grown faster than value this time. So, is there anything to highlight as to why that is the case in this quarter?

Pradip Menon: No, see there are a couple of things. One is that because of the fact that we have had a significant drop, in fact, it is quite a strange situation. We have had a situation where some of the input prices were at the absolute low when the quarter started and then it sort of picked up. So, in some of the categories, the schemes and discounts which have been run have been done to make sure that the pricing in the landed price in the market is appropriate. So that is the reason why you are seeing some divergence between volume and value, but, it was not a significant one. And of course, as the quarter has come to a close, those additional spends and schemes would obviously not be appropriate since the raw material costs have already gone up. So that is the primary reason.

Pratik Rangnekar: So, would you have then withdrawn these schemes?

Pradip Menon: Yes. Yes.

Pratik Rangnekar: And Q4FY21, things have come back to normalizing?

Pradip Menon: Yes. Yes. And now of course, we have to wait and watch how the raw material costs go up. I mean they have already gone up. How to respond to that, whether appropriate. As I said, productivity, pricing, all of those angles we will have to look.

Pratik Rangnekar: And if I could just squeeze in one more. On the real estate side, so if you could just throw some color on what sort of a pickup you are noticing? Is it in a particular geography, particular cities? And how much of this is fresh projects being started or rather pent-up demand in terms of projects being caught up which were stuck during the lockdown period? And would you expect the run rate that you are seeing now to sustain? Or would you expect that to accelerate, especially from the point of view of your subsidiaries where you have like a direct relation with the real estate side?

Pradip Menon: Yes, so on the real estate side, what we are seeing is projects which are held up, there is some indications of restart. These are already existing projects where there could have been some delays and disruptions. The order taking in some of these projects have gone up. But the translation into sales is going to take longer, from order taking to actually translating into an actual invoice booking and an actual sale. So that is going to take a little more time.

But there is quite a lot of positive indication from the inquiries, orders which are coming in. So that is all I would say. Absolutely fresh new projects, there are a few, but they are not as widespread.

Pratik Rangnekar: Okay. Just one small bookkeeping question. The Huntsman acquisition, that is included in the consumer part or in the industrial part? I would assume consumer, right?

Pradip Menon: Consumer, yes. Consumer.

Moderato: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: Sir, Fevicol, your brand, is very solid, and we have entrenched carpenter as a segment really well. Sir, just wanted to understand from a competitive intensity point of view, when we look at construction chemicals and waterproofing, I understand Nina Percept and basically, the runway on how we actually had that acquisition. But how entrenched are we with [Acadia] when it comes to construction chemicals and waterproofing as a segment when one looks at increasing competitive intensity in the segment? So, I wanted to understand that.

Pradip Menon: You are basically asking about the competition and the kind of environment we are operating in as far as waterproofing is concerned, is that the question?

Ritesh Shah: Yes, that is the question. So, with carpenters, our channel is really strong. But when it comes to this specific segment, how uniquely are we positioned? That is what I want to understand.

Pradip Menon: See, frankly speaking, as far as waterproofing is concerned, if you look at the brand we established, that is possibly the one which has got a strong track record and is synonymous with the category. So, recall that the brand is also very strong. As you rightly mentioned, there are different players who have got different strengths. So, there is a hardware channel, there is a paints channel, there is other channels like building materials, cement. Each of the players, each of the various companies who operate have got strength in those respective channels. So that is a fair fact. But as far as we are concerned, we are looking at what do we offer. We have strong R&D innovation; we have got strengths to distribute across these various channels. We have a strong connect with specialized water proofers and civil contractors. And finally, as you mentioned, we have got an arm which actually executes these projects. So, we are not just providing the product, but also giving the service. In a way, if you look at it from a large customer perspective, we have one net to catch for both the product and the service. So that is the way we think that we have the strength and the capability. Of course, there will be a competition, as is the case in all the various category. And therefore, we believe we are in a position of strength to deliver strong growth. We have done that and even during this period, this year, even last year, in challenging times, the growth was double-digit-plus in construction chemicals. And even this year, we have consistently called out that it has been the fastest performing segment for us during the year. So, I think, that is where we see it. There is, of course, competition which is there.

Apurva Parekh: I think the important thing is we have a significant first-mover advantage. We were the first company to focus on the construction chemical retail market. And hence, we have an excellent end user connect with all the people involved in waterproofing trade as well as waterproofing end users. So, we have been doing significant ground level activities for many, many years, much before any other players. And hence, as you said, the way, we have a strong connect in the woodworking segment with carpenters, we have similar strong connect with various people involved in the waterproofing trade, be it influencers or end user or even consumers.

Ritesh Shah: Apurva, just a follow-up question over here. The larger players, what they have resorted to is one - basically, there has to be a right to win. And secondly, bundling as a strategy has been implemented by the competition. So, would you say that we have a right to win in waterproofing as a category? I understand Nina Percept is a big lever that we have, and we are focusing on larger projects, more on refurbishment. But would we say that we have a right to win? And are there any more complementary products under the Pidilite basket that actually we can bundle and push this thing through?

Apurva Parekh: No, let us keep project and retail aside. So, in retail segment, we have a comprehensive product portfolio. So, for a person who does small waterproofing jobs, we have a full portfolio of products, and we have been working with that customer for a long period of time. So, there is a strong product acceptance, there is a strong end user connect, and that gives us clearly the advantage, and we have been working with. So, when you talk about bundling, we do have a full range of waterproofing product that the person needs. I think the bundling that you refer in respect to dealer is a different thing. Our belief is that our brands have strong pull, our brands have strong product acceptance amongst the relevant end user. And we have a very, very strong end user connect for last many, many years. And that is what gives us the competitive advantage. Bundling of the products and all have, in our opinion, limited value. People do want to use the right product for the right job and not just because it is bundled with something else.

Ritesh Shah: That certainly helps. Sir, just if I can just push it a bit further. Sir, you indicated that bundling is something that we can do within waterproofing product categories. Is it possible that there are any other complementary products within the Pidilite basket wherein we can put waterproofing along with that, and actually, we can put it in the channel more aggressively? I understand brand is something which is phenomenal, second to none. Everything is right, but I just wanted to understand one specific aspect over here.

Apurva Parekh: Look, we have a wide portfolio of products which goes to relevant outlets. So, if you go to a hardware outlet, Pidilite has a large number of products which goes into a hardware outlet. Or if you go to a cement outlet, largely buys only waterproofing products, again, we have the right products for them. If you look at paint-type of outlets, yes, we have some more products which a paint outlet can buy. But our greatest strength lies in the other categories of outlet where there is a large consumption of waterproofing products.

Ritesh Shah: Sure, thank you for the detailed answers.

Moderator: The next question is from the line of Percy Panthaki from IIFL Securities Limited.

Percy Panthaki: I have 2 questions. First question is, again on waterproofing, more from the competitive angle. You have been the market leader in waterproofing since a long time. Just wanted to understand if, basically, your gap with the no 2 player, is that coming down? Do you see the no 2 player sort of growing at a faster rate than you? Or basically, the growth is similar, and therefore, relative market shares are more or less maintained?

Pradip Menon: So at least it is our view that and you are seeing the growth which are getting reported, it is very difficult to exactly get product-wise information etc. But our sense is that the position in terms of market share, we have continued to maintain, if not slightly increase. The market itself has been growing very fast. So, it is less about gaining share from each other. Rather, it is more about ensuring that we are able to capture the pie which is expanding. And it is a well-known fact that the size of waterproofing market in India is relatively small, and therefore, the opportunity is there. Of course, there are many players and there are paint players, etc, in the market, but I think there is enough opportunity to grow for all the players. And some of this helps because it helps in expanding and usage of the product faster when there is more competition. So, we welcome that, and we believe we are in a good space so far, whatever we have seen.

Percy Panthaki: Just a sub question to this. In waterproofing, there are many different types of solutions. There are sheets and polymers and primers and so many different types of solutions out there. So out of these 4 or 5 options, which is basically the largest size in terms of revenues for the industry as a whole? And where is the growth the highest out of these solutions for the industry? Again, both these are pertaining to the industry.

Apurva Parekh: See I may not have the exact numbers, but overall, there are a set of waterproofing products which are used when a new building is being constructed. And there are a set of products, for example, which is added in cement or various other products which are used for waterproofing while a new construction is being done. This is typically done by a building contractor or a waterproofing contractor. Now we are very, very strong in this space, and this is where we believe the largest consumption lies. Also, now some waterproofing products are used by painters when they do painting. They do apply a waterproof primer or they apply a waterproof paint. Here, paint companies have a better advantage than us due to the connect with painters and their distribution in paint channel. So, they have been trying to convert some of the painters' product into waterproof products, which is like creating a new segment or a new market. But it does not take away from the market which is to be used while constructing a building - an individual building or a large building, and that is where our biggest strength lies. We also have strength in a number of other segments like tiling, grouting. We are a full-service waterproofing service provider with a full segment of products. So, I do not have the exact market size of each segment, but the core waterproofing is what we are the strongest in terms of end-user connect, distribution, brand awareness, etc. And we also now have some products, waterproof-related products which painters can use.

Percy Panthaki: Got you. My second question is on your margins. This quarter, your margins are probably at all-time highs and input cost is going up. Now obviously, some amount of price increase will happen. But ultimately, at least in the short term, it is the company which decides the margins that it wants to operate at. So, from that point of view, just wanted to understand the level of price increase you will take to target a certain amount of margin. Last quarter,

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you had said like 21% or something is a good level of margin to remain at. Today, we are much, much higher than that. So, is that 21% number very conservative in light of these results? Or do you think that given where the raw materials are, that kind of dip in margins versus this exceptionally high level can actually happen?

Pradip Menon: No. I think we had given a range. We typically operate within a range of 21% to 24%. So that is the kind of range we had mentioned last time. So, 21% is the bottom there.

Percy Panthaki: Correct. Correct. 21% to 24%, yes.

Pradip Menon: Yes, so that is the kind of range we expect going forward. As you rightly mentioned, some bit of pricing may need to be taken if the inflation continues unabated, but not fully. And at the same time, we need to also invest behind the brand and sales distribution. So, there will be additional costs coming there as well. So that is the kind of range we expect to operate.

Percy Panthaki: Sir, but is it possible that like for a few quarters, 4 to 6 quarters, you might continue to remain higher than the upper level of that band? Or you think that the reversion might happen a little more quickly than that?

Pradip Menon: See, even last time, we had mentioned that the quarter we are now reporting, which is Q3FY21, we may not see the full impact of inflation because you are carrying stocks of lower-priced materials, raw material and finished goods. But now that the new arrivals are all coming in at a higher cost, the costs are going to come in anyway. And some bit of pricing, as you mentioned, if it happens, that will negate part of it, but not fully, and plus the investment behind the A&SP which will happen. So, we do expect to operate in this range of 21% to 24% only. Of course, these are difficult to predict, the way costs have dropped and then gone back; it is anybody's guess. But at this point of time, our view in the next maybe 4 to 6 months, the costs are going to be higher, and therefore, this is the kind of range we would expect.

Moderator: The next question is from the line of Heet Vora from Prabhudas Lilladher.

Heet Vora: Sir, the first question I want to ask was actually on the raw materials. We saw that the raw material prices have gone up or they have shot up a lot. So, is there any particular reason for that? Or it is just because of increase in basically the usage for the raw materials? Or is there any specific reason why we have seen such a sharp increase?

Pradip Menon: See, frankly speaking, every raw material, there are different drivers of the increase. But if you want a very broad-based kind of response, I would say, a few things have happened. One is, basically, crude prices themselves have gone up in the last 6 months. That is one very basic driver. The other thing which has happened is in some of these products, the Chinese and Asian consumption is high. And therefore, when the consumption and demand went up, that had an immediate impact. The third element which has also happened is many of the refineries have been operating at a lower capacity. And because of the lower capacity, the production is also lower. And as a consequence, the response time to the uptick in demand has been less. So basically, 2 or 3 broad reasons. And then in 1 or 2 cases, we have also had some unplanned shutdowns in the various manufacturing units in some of these large raw materials. And these are the combination of factors. But all of them, we do not see it recovering in the next month or two, which is why we are saying that it could take 5, 6 months for prices to come back to some normalcy.

Heet Vora: Okay. And sir, just one more question, mainly on the cost advantage. So, we had reduced the cost, some of our costs. So, going into the next year, how much of the cost advantage do we sustain?

Pradip Menon: See, frankly speaking, I do not think we can look at it that way. What you have to look at is what is the kind of operating margins or EBITDA margins we will be working with. So, as I said, that is the kind of range, 21% to 24% is the broad range we will be working with for next year as well. So that will give you an indication, comparator with this year or the previous year or whatever.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan.

Kaustubh Pawaskar: Sir my question is on the Huntsman acquisition. So, this acquisition has better, higher margins than what our business has. And in your initial comment, you mentioned that still a lot of work has to be done in terms of distribution expansion and on the cost front as well. So, considering that, should we expect the margins of this particular business to further improve from the current level?

Pradip Menon: I will just give a couple of qualitative comments, and then maybe Apurva will chip in also. See, I think the first thing is that we have only operated 2 months. It is very early days. And what we have seen in the 2 months versus the past data is that we have got some benefits of the better mix of the kind of products we have sold. Second is, like many of the other products, there have been lower input costs during the quarter. Not necessarily going forward, but lower input costs during the quarter because what we were carrying or whatever we had contracted. Now because of that, the costs are lower and the mix is better, and you are seeing a much better margin. I think we will have to just wait and watch on the sustainability of the margin, what will be the longer-term number because at the same time, to expand distribution and volume, we will also have to invest in the market, to invest on distribution, people, etc. So, we will have to just watch this. Right now, as I said, yes, it has improved versus the past because of these 2 reasons.

Apurva Parekh: I would like to say, the current margins are high. As Pradip said, the raw material prices were lower. As they increase, it will have some impact. And also, as we spend more money on the building capability in this business as well as on brand building, the cost will go up. So, the current level of margins is quite high, and it may not maintain at this level. However, it is likely that it will be still a very profitable business.

Moderator: The next question is from the line of Shanti Patel from Shanti Patel Investment.

Shanti Patel: First, what is our capacity utilization today? Number two, where do we stand as far as in the market ranking is concerned? And number three, what is the return on capital employed today and what to expect in next 1 year?

Pradip Menon: I think I will just broadly cover the points. I think one is that in terms of capacity utilization, we continue to invest as far as the future is concerned. But as far as the current capacity utilizations are concerned, they would all be in the range of about 85% to 90%. So that is the kind of range we are operating in, which obviously means that we need to continue to invest on our capacities going forward as well. As far as ranking, etc, is concerned, I guess, this is not something we track. So, you should be better placed to give us a feedback. And as far as return on capital employed is concerned, the metrics are all sort of public. And so that is something which should be available in public domain. Suffice to say that as far as return on capital employed is concerned, we very closely look at the kind of investments we make, very closely look at the kind of working capital we maintain. And therefore, our endeavor is always to ensure a better return as far as the shareholders are concerned.

Moderator: The next question is from the line of Jasdeep Walia from Infina Finance.

Jasdeep Walia: Sir, my question is on the brand Araldite. So, is there a very large unorganized market in epoxy adhesives in India? By unorganized, I mean, local players who service markets like, let's say, imitation jewelry through resin and hardener imports from China. If that is the case, what is your estimate on the size of this market? And can you tap this market through, let us say, improving distribution reach or coming out with a lower value-added product at lower price point, which would be more amenable to this kind of a market?

Apurva Parekh: Yes, there is a certain handicraft jewellery type of market which operates at the lower end of the market with low selling price. Yes, there could be opportunity in that kind of a segment. But the bigger opportunity is in the core usages of the brand, where the margins are better and where Araldite is a strong player, and we plan to focus there.

Jasdeep Walia: Got it. Sir, any idea of the size of this market at lower price points?

Apurva Parekh: It is difficult to estimate. That is not a significant focus area. While the market, the size may be larger, but the margin pool is much smaller. So, we will examine it if we find there is good opportunity there, we will certainly address it. But in terms of margin pool, our opinion is it is not very significant, this imitation jewellery-type market.

Moderator: The next question is from the line of Ritesh Shah from Investec

Ritesh Shah: Sir, just one bookkeeping question. What are the spot VAM prices against the $875 what you indicated for Q3?

Pradip Menon: So, the spot prices are around $1,300.

Ritesh Shah: $1,300, okay.

Moderator: The next question is from the line of Surabhi Jain from Macquarie.

Surabhi Jain: Sir, I had one question. So, you have said that we have seen demand recovery in the metros and the urban areas as well. Just wanted to get your sense as to what can be a reason for a lower recovery compared to a leading player, a paint player, like Asian Paints, where you have had like a 30% volume growth this quarter. Sir, just wanted to get your sense as to, are there any geographies which are yet to see recovery or what would be a reason for that?

Pradip Menon: There are 2, 3 points around comparison with paint players. First of all, whatever our growth is, we have a set of businesses and categories, not all of them overlap exactly with the paint players. So, we have a mix, first of all, there is the Consumer and Bazaar element, and then there is, of course, the B2B segment. So, both are there sitting in our numbers. That is one. Second is, if you look at the areas or businesses where we overlap with Asian or with any other paint players where results have come out, it will be in the space of largely waterproofing construction chemicals. So, whatever is the growth rates which have been declared by the paint companies, our growths would be there and thereabouts, if not at slightly higher. So, there is no problem on that side from a comparator with the paint companies. However, from a geographical point of view, urban areas were much more impacted by COVID, and therefore, have taken longer to recover. Also, just a point as far as Q3FY21 results are concerned, we do not have a festive season-led demand and therefore, that is another element. It is not a significant play as far as our returns are concerned or our sales are concerned. And finally, volumes in some of the paint businesses are also led by some of the lower priced products like putty etc, where volume is high, but value is low. So, we do not have that kind of large portfolio in that area. Anyway, we are not in that segment at all. So that is possibly 3 or 4 reasons to explain.

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

Anand Shah: Just 2 follow-ups. So firstly, if you can throw some color on the international business. I mean that seems doing quite well, both in Q2 and Q3 and especially Americas, which is seeing very, very strong growth. So, what is the outlook there? And what is driving this growth in Americas? And just a bookkeeping on the Huntsman acquisition. I mean that was a complete cash payout by internal accruals, or did you resort to do any minor debt in interim just to fund that? Just those 2, yes.

Pradip Menon: I'll answer the second question and request Apurva to answer the first one. See, as far as acquisition is concerned, we did that out of our own internal accruals. We have a substantial treasury so that was the source of the funding. And as you know, when we did the deal, the deal was 90% of the payout and the balance 10% is paid on achievement of certain metrics. So that is the way the deal was struck.

Apurva Parekh: As far as international business goes, Americas and Brazil, the overall business was good. One of the factors was also the corona voucher that the government had given there, which resulted in a significant growth in the construction market, and our company and our team

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was sort of well poised to benefit from it. So that was one of the factors. As far as U.S. goes, also in U.S. during lockdown, the art, hobby and craft category has seen significant growth. And again, our company did well to capitalize on this. So, I would say, while both companies did well, they were also aided by the external conditions and such high growth may not sustain going forward. But both companies are now reasonably well placed in terms of the management team, product portfolio and other things to be able to perform consistently. That is what we hope and expect. Also, in second quarter, we saw good improvement in our SAARC region. Our Bangladesh and Sri Lanka business are good and strong. And as from corona, these countries are recovering, both the businesses saw good growth in those 2 markets as well.

Moderator: The next question is from the line of Utkarsh Solapurwala from Damos Capital.

Utkarsh Solapurwala: Can you provide an update on the other acquisition that you made in 2019 and 2020, like Pidilite C Techos, Tenax India Stone Products and Grupo Puma.

Pradip Menon: So many of these, actually, in the case of Tenax, essentially, in terms of operations, etc, we have taken it over. In fact, the actual transfer of business happened in May 2020. So, it is hardly 6 months. So, we have transferred operations controls into Mumbai and work has started. As far as the other 2 entities are concerned, we are in the stage of actually setting up factories, manufacturing facilities, and these would be live sometime during the financial year 2022, that is a couple of quarters, 3 quarters away. So, I think these are the broad updates on these 2.

Moderator: The next question is from the line of Mithun Soni from GeeCee Investments.

Mithun Soni: Just one question. Basically, I just wanted your view on how you are seeing this trend of consumers buying ready-made furniture and things like that, like Ikea coming up and Urban Ladder and Pepperfry, all of them are springing up big time. And it is a big market and all these big organizations are getting into it. How do you see that affecting our demand for Fevicol?

Apurva Parekh: So, ready-made furniture is not a new trend or phenomena. Ready-made furniture has been coming in India for more than 30, 40 years. We are also today the strongest player in the joinery adhesive segment. We have a wide product portfolio and the right go-to-market to service this segment. So, we have the right products, right, technology and right distribution

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to address that market. In addition, what we are finding is that both ready-made furniture and on-site furniture are growing at a good pace. In India, there is still a lot of room for interior decor and on-site furniture to happen. And we are currently finding that both segments are growing at reasonable pace, and we are sort of well-equipped to serve both the segments.

Mithun Soni: But like just one query here. So, in cases like these organized guys, then do we get a pricing power for selling our products through, whether it is Pepperfry or these organized guys? Or we do not really get that pricing power?

Apurva Parekh: See Pepperfry is a marketplace for furniture. So, they end up buying from a lot of smaller joinery. And as you know, we have a strategic investment in Pepperfry. So, we know that company fairly well. It is a marketplace for furniture sellers, and they buy from large number of joineries. And yes, we do get reasonable pricing power because of our product, our technology and our service.

Mithun Soni: Okay. And how big would that contribution be, like the furniture market for the overall market of Fevicol? Like would you be able to give some value there.

Apurva Parekh: See, I do not like to break that up for confidentiality reasons. But however, still, the on-site furniture is a much larger part of the overall business.

Mithun Soni: And you do not see that consumer habit of getting their things, making it house is changing?

Apurva Parekh: No. There, you see, market overall is growing. So, there are people who are never doing on-site furniture, do a little bit of on-site furniture and also, they buy furniture from outside. In India, there is a very good growth runway available for both. It is possible that ready-made furniture growth rate maybe a little bit more, but there is still healthy growth available in both on-site furniture and offsite furniture because a lot of furniture and construction is yet to happen.

Mithun Soni: And we are present on both the sides, whether it is made in-house or from outside?

Apurva Parekh: Yes, in joineries or on-site, in both of the segments, we are very strong and we are present in both of them, yes.

Mithun Soni: So technically, we are indifferent whether what grows for us?

Apurva Parekh: We are present and we are strong in both the segments.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan.

Kaustubh Pawaskar: Just a bookkeeping question. Sir, you just mentioned that your capacity utilization is around 85% to 90%, and you are looking behind investment in Capex. So, what are your Capex plans for next 2 years?

Pradip Menon: I think I had covered it earlier. Typically, we spend between 4% to 5% of our revenue as Capex. So those are the kind of range in which we continue to invest. There is nothing significantly different. So, it is a very consistent plan year-on-year that we end up spending, and that is planned out for several years.

Moderator: Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

Pradip Menon: First of all, thank you all for coming in and raising the valid questions to us. Appreciate the questions, and please stay safe. And until we meet again, good evening to all of you. Thank you

Apurva Parekh: Thank you, all.

Moderator: On behalf of IIFL 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)