



15th May, 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 13th May, 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
Q4FY2021 Earnings Conference Call”

May 13, 2021

ANALYST: MR. JIGAR SHAH – ICICI SECURITIES

**MANAGEMENT: MR. BHARAT PURI – MANAGING DIRECTOR -
PIDILITE INDUSTRIES LIMITED
MR. APURVA PAREKH – EXECUTIVE DIRECTOR –
PIDILITE INDUSTRIES LIMITED
MR. PRADIP MENON – CHIEF FINANCIAL OFFICER –
PIDILITE INDUSTRIES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q4 FY2021 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Jigar Shah from ICICI Securities. Thank you and over to you Sir!

Jigar Shah: Hello and welcome everyone to Pidilite Industries’ Q4FY21 earnings conference call. We have with us today Mr. Bharat Puri, Managing Director, Mr. Apurva Parekh, Executive Director; and Mr. Pradip Menon, CFO to take us through this result. Without further ado, I'd like to hand over to Mr. Pradip Menon for opening remarks.

Pradip Menon: Thank you, Jigar. This quarter witnessed robust broad-based growth across all businesses and geography. Despite significant challenges in FY '21, we have displayed adaptability and resilience while building capability and capacity.

I'll begin with a summary of the financial performance for the quarter and year ended 31st March 2021. On consolidated basis, net sales at INR 2,230 crores for the quarter grew by 45.3%. Excluding the newly acquired Huntsman subsidiary, PAPL, growth was at 38.2%. This was driven by a 50% growth in Consumer and Bazaar (C&B) segment and an excess of 20% growth in the B2B segment. Full year 2021 net sales at INR 7,251 crore was flat over last year. Gross margins for the quarter were impacted due to significant inflation in input costs. Material cost as a percentage to net sales is higher by 440 basis points versus same quarter last year and 390 basis points versus previous quarter. EBITDA before nonoperating income at INR 460 crores grew by 52% over the same quarter last year. EBITDA for the year ended stood at INR 1,683 crore and grew by 7% over last year. On a like-to-like basis, excluding the newly acquired subsidiary, EBITDA in Q4 grew by 41% and 3% for the full year.

Moving on to stand-alone performance. Net sales at INR 1,851 crore grew by 42% over the same quarter last year with underlying volume and mix growth of 40%. There was a 45% growth in sales and volume mix of Consumer and Bazaar segment and 26% growth in sales and volume of B2B segment. Robust growth was registered across all major categories like adhesives, construction chemicals and DIY segment driven by continued demand

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momentum in both rural and urban geographies. B2B segment posted sequential volume and value growth in excess of 26% aided by gradual and consistent pickup in economic activities. Net sales for the year ended at INR 6,187 crore, declined by 2% year-on year. Our key raw material, vinyl acetate monomer, procurement rates over the last few months have increased from around \$930 all the way up to \$2,000. There has also been significant increase in other input costs. Capacity disruption at manufacturing sites and overall pick up in global recovery and strong domestic demand have led to this inflation. Consumption cost for Q4 '21 of VAM is approximately USD 1,200 compared to USD 925 in Q4 '20 and \$875 per tonne in the previous quarter. Material cost as a percentage of net sales increased by 388 basis points over the same quarter last year and 317 bps versus previous quarter. EBITDA before nonoperating income at INR 408 crores grew by 43% over the same quarter last year. EBITDA for the year ended 2021 was at INR 1,550 crore and grew by 4% over last year. PBT before exceptional items at INR 376 crores grew by 43% over the same quarter last year. PBT for the year ended 2021 was INR 1,457 crores and declined by 3% over last year.

Moving on to subsidiaries. Domestic subsidiaries in the C&B segment have shown healthy growth. Subsidiaries in the B2B segment have shown early signs of recovery. However, with current inflationary trend in input costs and construction activity being impacted due to extended lockdown in many parts of the country, timing of recovery is uncertain. Our newly acquired subsidiary, Pidilite Adhesives Pvt Ltd, formerly known as Huntsman Advanced Materials Solutions Private Limited (HAMSPL), has shown sequential monthly improvement in sales and business is growing in well over double digits during the quarter. Our business and financial integration has progressed smoothly as per the plan. We expect better realization in margins after the current raw material cycle is settled and growth momentum expected to continue.

In terms of way forward, the current second wave of pandemic poses challenges and demand outlook remains uncertain. Despite pricing and cost actions, we expect margins to remain under pressure in the coming quarters. Our focus is to ensure supply, service and customer end user connects when markets are operating. Pidilite remains committed to working with our partners to overcome this crisis. I'll now hand this back to Jigar and the hosting team.

Moderator:

The first question is from the line of Abneesh Roy from Edelweiss



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Abneesh Roy: My first question is on vinyl acetate monomer, so \$2,000 pricing is absolutely unheard of. Last quarter, you had said you have not taken price increase, and you said that you will try to manage the product mix rather than taking price hike. What is the situation now? And what is the view on VAM? Is it just a very short-term, the price hike?

Bharat Puri: See, \$2,000 a tonne is unprecedented for vinyl acetate monomer. We have already taken price at the end of March, in the last week of March and we are taking price again in this month, which is in the month of May. We will cover to the extent of about 75% of inflation. Our belief is that this is not due to a demand situation, but due to supply constraints as a result of a number of factors, which includes the U.S. storms and therefore, closures in the U.S.; Europe buying from Asia; increased demand; and plant closures in Asia. We believe in the second half of the year, this will moderate. We will keep a close watch. But yes, as far as the first 6 months is concerned, this is definitely going to have a substantial impact on our operations, and therefore, we have had to take price.

Abneesh Roy: And sir, with this kind of a sharp inflation, do you see regional smaller players losing market share?

Bharat Puri: Without any doubt. What tends to happen in a situation like this is, this is unprecedented and therefore, the domestic market shoots up much more. People like us, obviously, have larger inventories and it takes time for us to work through, in a sense, lower-priced inventory. For the smaller and regional players, it hits much harder and supplies itself was a constraint for some period of time. So, If I look at the last 4 months, I believe we would have also gained market share.

Abneesh Roy: My second question is on two of your underperforming segments. Essentially, if I see Nina and if I see Middle East and Africa, they have two very similar traits - hardly any sales growth, EBITDA loss this quarter, base quarter, full year for both the businesses. If you could tell us what is the way forward and what is the plan here. Do you plan to consolidate and maybe reduce exposure in these 2 businesses?

Bharat Puri: Very different, let me give you overall picture. As far as Nina Percept is concerned, this is our waterproofing higher-end contracting arm, which suffered massively as a result of the country-wide lockdown last year. And by the time labor etc, came back, it was probably 6 to 7 months. Actually, in the last quarter of this year, the business started picking up fairly well, and it's unfortunate that we got into wave 2. On a structural basis, the business is a



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strong profitable one as you have seen in the past. Actually, in the last 5 months, our order book has become quite healthy because as the government is putting in infrastructure projects, we have gained a fair amount of these projects. But in the short run, again, because of closure, because of lockdown and also this unprecedented raw material situation, it is almost a perfect storm for Nina. But over a period of time, whether that will be 6 or 9 months, the business will come back to its normal shape. As far as Middle East, Africa is concerned, you are only, I suspect, looking at the Pidilite Middle East subsidiary, you are not looking at the overall picture. As an overall picture, actually, in the Middle East, Africa, we have grown this year. Africa, actually, far more substantially because that also includes exports from here. In the 9 months or even for a 12-month period, our export business has grown. So really, therefore, as far as Middle East and Africa is concerned, it is back in action and fortunately, even the current period, it continues to do well because there are no lockdowns happening either in the Middle East or Africa. So, two different businesses and therefore, different answers.

Abneesh Roy: But what is the issue with that business, sir, which is having losses, Middle East, Africa?

Bharat Puri: That is a very small manufacturing part of the business, which was manufacturing powder. Given the situation again in the Middle East last year they were also closed down for a substantial period, labor went back etc. Therefore, we suffered with the specific subsidiary. But if I aggregate my Middle East, Africa business, it is a very healthy business.

Abneesh Roy: That's very helpful. And just one small last question. On Huntsman, you have given the numbers, thanks for that. So, INR 34 crores EBITDA on INR 109 crores sales, that's an extremely good EBITDA margin of 31%. Obviously, far superior than the reported stand-alone etc. My question is, is this the real sustainable margins here? Also, my sense is raw material will impact. But if I compare Huntsman to your own segment, are they comparable margins? Or currently, some costs in Huntsman are not there. You are not advertising.

Bharat Puri: No, at an overall level, we always maintain that even when we took over the Huntsman business, we had signaled that the EBITDA margin is higher than our business. Having said that, the 2 raw materials that have seen the sharpest increase in the chemical sector are VAM and the epoxy resin. This is again another business, which, over the next 3 to 6 months, epoxy resin impacts. Even here, we have taken substantial pricing, but not to the extent of the raw material increases. And therefore, overall, structurally, this is a solid profitable business. In a steady state, it will probably be at higher than the aggregate margin



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of Pidilite, but equivalent to Pidilite good businesses. In the next 6 months, again, because of the epoxy resin situation where epoxy resin prices are pretty much doubled. So therefore, as a result of that, next 3 to 6 months, you will see some moderation of margins. But structurally, it is like a star Pidilite business and therefore, it will be at the higher than Pidilite's aggregated margin.

Pradip Menon: Just to close the point which Bharat was talking about, so epoxy, actually, the prices have gone to almost INR 400 a kg versus about between INR 160 to INR 200 a kg. So there, again, prices have indeed doubled. So that is another category where we have had to take price hike.

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

Prashant Kutty: Congrats on a very strong sales performance. What I understand, sir, it is a little difficult to say at this point of time how things might be at this point of time from a demand standpoint. But generally, just looking at how the recovery happened and the pent-up happened pretty soon as far as our categories are concerned last time. And also, in terms of the impact that you are probably hearing across the board, construction activity in general seems to be slightly better off. So, is there a little bit of optimism over here that the recovery would be much faster when it comes to a lot of our categories are concerned?

Bharat Puri: Thank you, Prashant. I wish what you were saying was to true. Frankly, the answer to that is we do not know. As of now, pretty much 70% of the country is closed down. And while there is some construction activity, it is at a much lesser level. How soon it will bounce back? Frankly, it will be directly proportional to the reduction of the pandemic. And very difficult to say as to will it bounce back as quickly, go far quicker. Last year was encouraging, but I would not have any guesses of how it is going to play out this time

Prashant Kutty: Just if I can probably extend this, even in terms of, even the last 3 months, how they have gone, they have been pretty strong. Would these trends kind of happen to continue in terms of April until the lockdown happened? And why I'm asking about most of construction activity is, specifically, we do a lot of project business as well. So, are those projects still continuing despite the pandemic going on? That was the context more so.

Bharat Puri: See, 2 things. One is what we saw in April is, whenever business was not locked down, it was continuing at a good rate. Wherever we started closing out, it started with Maharashtra,



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then parts of Gujarat, Madhya Pradesh, it was all proportional to the pandemic. Even on projects, right now, what we are seeing is there are very few projects that are declared in 'essential services. And therefore, even projects are impacted, though there is at least some basic construction activity still on, but not at the same pace as it was on earlier. But yes, projects we still have some activity, whereas in the retail market, pretty much 75% of the country today is closed.

Prashant Kutty: If I could squeeze in one more in terms of a follow-up. You highlighted that obviously because of VAM, a lot of the unorganized would probably struggle. And again, the pandemic, the second wave coming in, it is going to be even more of a struggle this time for them. Any sense in terms, are we hearing instances that probably unorganized section is probably getting shut or you feel that they really do not have a chance to come back in both the scenarios where demand is also bad and even cost scenario is also really bad. So, could we actually see very sharp gains as far as organized or unorganized to organized is concerned? Is that a fair assumption?

Bharat Puri: I do not think so. I think it happened more substantially; we saw them slowly coming back. Yes, they will suffer, but they have a reason to exist and that reason while today, it is more difficult because of both the raw material situation, the pandemic and also it will start impacting liquidity. In our view, they will continue to exist. We do believe that at least in the shorter period, we will continue to gain market share because, A) our supply chain is far more adapted and resilient and therefore has far more sources of supply. The other thing is consumers also tend to turn to trusted brands whenever there is adversity. And I think both those things benefit us.

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

Percy Panthaki: One is on the costing and pricing. So firstly, could you give me an idea of what is the weighted average price increase that you have taken for the portfolio? And secondly, these input costs, as you said, the inflation is very unprecedented. So, what is the call or view you are taking in terms of where these prices are going to stabilize because your future pricing is going to be based on some kind of view that you will take on these commodities right now?

Bharat Puri: Great questions, Percy. The first part, given the breadth of our portfolio and its different sizes, it is very difficult to look at what is our weighted price increase because we just have too large SKUs across too many divisions. At a broad level, what I can tell you is currently,



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we are pricing at 75% of inflation. Our belief, therefore, is that in a worst-case scenario over the 6-month period, the current raw material prices will come down to at least 75% level, which will, in a sense, enable us to come back to normalcy. And that is what we are planning on, but we will have to play this in a sense week by fortnight by month and keep a close watch and then see as to what the action is, we need to take.

Percy Panthaki: So, if I understand you correctly, what you are saying is if VAM is at INR 2,000, your current pricing is assuming that if it comes down to INR 1,500, you should be okay.

Bharat Puri: It comes down to be between INR 1,200 and INR 1,500 is where we assume it should come down at least in a 6-month period.

Percy Panthaki: Right. And I understand it is difficult to give a weighted average pricing so in that case, could you just give us a couple of examples in your largest selling products, what kind of pricing you have taken without averaging it?

Bharat Puri: Again, difficult to do this thing. But like take, for example, and Fevicol, again, remember because even brand Fevicol in woodworking has a large number of SKUs and the pricing is different across SKUs. Pradip, would it be fair to say that the aggregate price increase between March and May for Fevicol would be in the range of between 4% to 6%?

Pradip Menon: Yes. That will be correct.

Percy Panthaki: Okay. Got you, sir. Second question is on the demand scenario, and I know it is very difficult to forecast out. But just wanted to get a sense on what is the situation right now. You mentioned that 75% of the shops are completely closed. Did I hear that correctly?

Bharat Puri: Yes. Pretty much 75% of the country today is under lockdown, which means shops are closed because a large part of our shops with the exception of very few are not classified as 'Essential services'.

Percy Panthaki: Right. And construction, I think is classified as essential. So, there would be some amount of direct sales that might be happening to construction. So, what kind of percentage of your portfolio is exposed to that, which would not be affected



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Bharat Puri: There is some amount of sales happening, but again, it is less than 20% of the overall portfolio

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

Avi Mehta: I just had two questions. First, I wanted to clarify this \$2,000 essentially, is there a very wide range? Is there a lot of volatility in the VAM price that you are witnessing? Or is it broadly going to be remaining impacted? And B) is mix going to be a lever that you will use again in this quarter to offset this impact, the product portfolio mix, product mix?

Bharat Puri: I mean yes. There is a substantial amount of volatility in VAM prices, but unfortunately, volatility is only in one direction, which is because of the various problems we saw. We saw it start at \$800, and it is in instant way up to \$2000. We have not seen it start moderating yet. We believe by June; it will start moderating. So that is the situation on VAM.

And the second part of your question was?

Avi Mehta: Was essentially mix. Would you look to play the product portfolio?

Bharat Puri: That as a matter of strategy we keep doing, which is the whole game around premiumization, innovation. But in a situation where currently demand itself is strained, very difficult. But improving mix is anyway part of our regular strategy.

Avi Mehta: And just a clarification if I may. I was a little surprised to see the FY '21 performance, basically, positively surprising the adhesives segment and a little bit surprised to see the waterproofing segment performance. So, we have seen quite healthy growth while waterproofing is more or less flattish. Just wanted to understand because my expectation is waterproofing will actually continue to do well. So, what am I missing?

Bharat Puri: What you are looking at is only the organized, high-end institutional waterproofing, which is by Nina Percept, right?

Avi Mehta: No, so what I am doing is looking at the shares that you give out. The FY '21 shares that you have given, if I compare it with the FY '20 share, they are more flattish in the waterproofing side, which suggests that waterproofing is close to 0, -1.



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Bharat Puri: That is because you have seen a substantial decline in the Nina Percept business last year given that the high-end waterproofing was closed pretty much for 6 months in the year, so one large part of waterproofing, which is institutional waterproofing is where everybody suffered. When I look at my overall waterproofing portfolio, actually, waterproofing has grown at a rate much higher than the average. So, one of our big growth drivers over a 9-month period has been waterproofing. So, waterproofing is leading the growth other than lagging.

Avi Mehta: Okay. And adhesives would be a little bit of a laggard? Is that a fair bit of assumption?

Bharat Puri: I think adhesives have remained very close to the averages last year because of all of the issues, B2B would be a little bit of a laggard.

Avi Mehta: Okay. And where I was going with this is for the second wave, I mean the first lockdown, while it may not be an exact mirror image, it gives you a sense on how you can expect. What would you say the risks to that assumption?

Bharat Puri: I would say there are 3 risks to that assumption. The first is last time, rural and small-town India was not impacted pretty much through the whole pandemic. This time, we are clearly seeing signs of that being impacted. And therefore, will that leave the growth or not is to be seen, that is typical. The other thing is last time, because it is a full lockdown with everything closed, B2B tended to suffer a lot more. Right now, we are actually seeing the B2B suffering far less than retail; because B2B, in the large cases, manufacturing is open, etc, and therefore, B2B this time is suffering less rather than more. And the third thing is last time, the pandemic was worldwide and the world was closed. Unfortunate for us, but in the second wave, we are amongst the worst impacted. For example, when I look at April and I even look at May, our export sales are going as per plan. It's only our neighbors like Nepal, etc, that are impacted. Middle East, Africa, etc, is not.

Avi Mehta: Sir, from a product portfolio side also, it would be busy. I was essentially looking from that aspect as well. Sorry, that was the last question.

Bharat Puri: I would say so. I think in this time, retail will be impacted, B2B will be better, exports will be better.

Avi Mehta: And waterproofing would be better than some of these buckets.



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Bharat Puri: I would think so. See, by the very nature of the waterproofing product, even if you take a city like Bombay right now, pre-monsoon work is allowed. So, if there is urgent repair and renovation work in waterproofing that is allowed, whereas regular retail shops are closed or renovation is not allowed.

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

Arnab Mitra: My question was again on your price increases. So given the extent of inflation in VAM and some of your other commodities, I am a little surprised that the price increase is still 4% to 6% because what we have seen in the past, and this is almost 10 years back where inflation was very high, in some of the commodities, you have put in double-digit price hikes. And we are seeing that kind of price hikes in many consumer categories where inflation is actually much lower. So, is it just that you feel this is a transient phase and you do not want to disturb the market? Or there is some worry of compression of demand due to elasticity why your price hikes are not more aggressive than 6% level?

Bharat Puri: Two things, Arnab. One is, remember when you're comparing with 10 years back, our operating margin used to be 10% lower, right? So therefore, the need for us keeping our head above the water and therefore taking aggressive price is different as it is now. You would also appreciate that if you look at the second quarter or the third quarter of last year, normally, we indicate a margin range of 20% to 24%. We were way above that margin range. So therefore, we anyway sensed there was a need to moderate margin. Otherwise, we are actually opening our back doors to a lot more of competition. So, it's a mixture of 2 things. One is we believe that we had a certain amount of compression in the margin that we intended to do anyway given the situation that we were in and therefore, our margins were at a high. The second is, yes, we do believe that these raw material prices, the trends are transient, these are not permanent because there are no demand-based factors. These are all related to disruptions in supply. And therefore, we believe that it is far better for us, while we may moderate margin for, say, 2 or 3 quarters, it is far more sensible rather than us to take price and actually impact the demand on a longer-term basis as well as, in a sense, also disturb the market.

Arnab Mitra: Sure. That is very helpful. And just one follow-up question on your subsidiaries. So, ICA, you have had a good ramp-up last year towards the second half. So, in the wood finish market, how do you see the prospects here? I mean in terms of growth, is there a lot more



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growth now in a sense that you have had a couple of years in this business? I just wanted your thoughts on that

Bharat Puri: See, ICA remains one of our strong growth drivers. We believe the premiumization trend in wood finishes has got a long way to play out yet. And we are in the super premium finishes, we are the #1 player. And now that we have local manufacturing, we have seen the advantages of that. We see a fairly long runway for the ICA business and where it is going to book.

Moderator: The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal.

Krishnan Sambamoorthy: Congratulations on a great set of numbers. My question is more structural, Bharat. The broad guidance was the growth in pioneer categories. Over the medium term we were expected to grow from one third of sales to half of sales. Now I understand some of these categories, so the growth may have been disrupted in FY '21. A) what was the broad proportion of pioneer and those categories in FY '21 and the timelines by which you are expecting it to be about half of this now?

Bharat Puri: See Krishnan, we had always said that this is going to change over a 5-year period. In many ways, last year, somebody has pressed the pause button on everything. And therefore, for example, we were building 3 factories for pioneer products across Litokol, Tenax and Grupo Puma, those have obviously got delayed by 6 months as a result of this, too. Actually, the plan has got at best pushed forward by a year. But when I look at my 9 months sales, it is still the growth in pioneer categories that are behaving as growth in pioneer. They have grown much faster than the core category. So, we know that the core strategy that we have or all the basic strategy we put in place is the right one. Frankly, 3 or 6 months in this unprecedented time, frankly, is something that we can live with.

Krishnan Sambamoorthy: Sure. Anything that you would like to point out where you are particularly pleased with the performance on the pioneer categories? And any category where you think the scale up has been lower than expectation, excluding, of course, the current environment that led to those factors?

Bharat Puri: For example, we have always maintained that irrespective of competition, the waterproofing category is a growth category, and we have seen that evidence. We continue to be strong leaders and grow strongly in that market. We are now finding a great amount of traction and



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initial success in the whole area of tile adhesives, which we called out as a pioneer category. So pretty much what we said last year in terms of our strategy has been playing out despite the pandemic

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

Ritesh Shah: I have two questions. My first question is on the working capital. If I look at the receivable days, it is the highest one we see in the last 20 years, that is what model end up, too. I don't have beyond that. So, I wanted to understand why the reason for receivables to jump up sharply. And secondly, also, basically, inventory days have also moved up both at stand-alone as well as consol. I think it will be a good thing if more of it is on the cost side. So that's the first question, sir.

Pradip Menon: So, I think maybe we should connect off-line. Frankly speaking, on working capital, on debtors, actually, in fact, because we have done that review, our debtor days have sharply come down over the last 1 year. In fact, our overdues are at an all-time low. I guess we should pick that up and have a conversation. Certainly, between the last 2 to 3 years, our debtor days at the end of March was the lowest. Even on inventory, whether it is inventories which are beyond a certain period of time because we keep a very close watch on our, we call it undesirable inventory, those have also sharply come down in the last 1 year. So maybe we should pick this up. Frankly, we believe we have done a pretty decent job in a fairly tumultuous year to manage both, yes. So, I will reconnect with you separately.

Ritesh Shah: Sure. My second question is we have given numbers on PAPL separately on the slide. I just wanted to understand when we had done the transition, I think the number which was indicated was around INR 500 crores, if I am not mistaken. And that number actually looks like a pretty steep growth on a year-on-year basis. Sir, can you give some more color on what it means on a year-on-year basis? Secondly, is it on back of market share improvement? And what it also implies to the existing products that we had in the same chemistry?

Apurva Parekh: I think what we had indicated at the time of acquisition was that the business size was close to INR 400 crore. And our annualized number, if you see for this quarter, is about 20% higher so the business has got off to a good start. And during the last quarter, our other epoxy brands have also done reasonably well. So overall, as a portfolio, we have done quite well in the last quarter.



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- Ritesh Shah:** Sir, would we have grown on the market share side as compared to the peer?
- Apurva Parekh:** Yes. There may have been some market share gain. But as you know, it is only first 5 months since the acquisition. So, we may have gained some market share. But as our full integration happens with Pidilite, then we would expect better market share gain in the future
- Ritesh Shah:** That's great and quite encouraging. And sir, last question, you did indicate about the price increases. Just wanted to touch upon, have we changed around the discounting or the incentive schemes given the demand is a bit subdued in the current scenario.
- Bharat Puri:** See, we keep doing that on a consistent basis, we keep flexing and so on and so forth based on the market, but there is no substantial change. But yes, on a regular basis, like, for example, demand is subdued. Right now, a dealer's concern really is safety, security and servicing what orders he has. He is not really worried about who's giving him a greater discount. So obviously, in periods like this, that is not the focus. On a regular basis, keep flexing that.
- Moderator:** The next question is from the line of Tejas Shah from Spark Capital.
- Tejas Shah:** Congrats on good set of numbers in this context. So now inflation across board, across commodity basket is deep and obviously, VAM is slightly unprecedented, but otherwise also it looks deep across. So, in a hypothetical scenario of inflation staying where it is, what would be your pricing strategy, let's say, for second half of the year? Would you prefer to pass on the pressure to customers or would you prefer to let go margins for a while?
- Bharat Puri:** See, we have always maintained Tejas that we manage margins in the range and the range is between 20% to 24%. When we are lucky or when we have a great run like we had, say, in parts of last year, it may go up to 25%, 26%, 27%. Hopefully, there should not be a time, but it could in 1 or 2 quarters even go below 20%. But at an overall yearly basis, we would like to keep our margin range between 20% to 24%. We believe that is a sustainable range. That is also a range that allows us to focus on volume and volume growth rather than just purely value. And we are fairly confident that over a larger period of time, we should be able to maintain that range. Now if pricing was to sustain and therefore to be in the range, we need to take greater pricing, we will do that. But my push always is that every inflation situation is an opportunity for us to become a little more efficient. So therefore, we will



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keep looking at all harder. If you look at our cost management last year, you will see that we have upped the game substantially. As far as our own cost management is concerned, the challenge will always be can we keep getting more efficient and therefore, not pricing at 100% of inflation, but maybe at 75% or 80% or 85%, but at least getting some out of cost, is the objective we would work with.

Tejas Shah: Sure. This is helpful, sir. Sir, second, you touched upon waterproofing demand. So, considering that at least in some markets, we are seeing that waterproofing and other construction work has been allowed and this demand seems much more nondiscretionary in nature versus, let's say, adhesives or other wood working demand. So, are we seeing any divergent trend in that part of the portfolio versus the rest of the business?

Bharat Puri: Right now, given that the lockdown is pretty much just less than a month, very difficult to see a larger-term trend. But if I was to look at last year, the first business that came back was actually waterproofing. We suggested that if consumers are spending more time at home, then they want to address their home the first. So, depending on how long the lockdowns persist, I suspect we will see a repeat of that this year also.

Tejas Shah: Sure. And sir, last one in bookkeeping. Our portfolio business has also expanded in different direction in last many years. So VAM as a percentage of total RM basket, is it still very high? Or what would the number be now?

Bharat Puri: Let me just simply put simply, it is still our #1 raw material by a long distance. And therefore, it is still critical to our success

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

Anand Shah: Just a couple of questions. Sir, firstly, on waterproofing segment, I mean you have done pretty well this year, and we are picking up the same from a lot of paint companies as well. So, I mean are we seeing a big market expansion happening? And is this driven by more consumer awareness or usage increase or consumers are picking up for you and protecting they're under coat? So, I mean what is really driving because we are seeing multiple entries as well as significant growth rates for all players, including you.

Bharat Puri: See, the simple answer to that is we have always maintained that as far as waterproofing is concerned, if you compare equivalent markets, which are similar to India, whether it is



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Brazil, Thailand, China, the proportion of waterproofing to paint, for example, is amongst the lowest in India, which suggests that India's penetration of waterproofing is extremely low. Now at best, proper waterproofing is done by 4 out of 10 new homes that are built in India. Thus, as a result, is this a growth segment for the future? Absolutely, yes, and over a large period of time. And we have always said that, a certain amount of competition will actually help this segment because more the people, greater the awareness and therefore, it becomes an essential part of actually construction activity. And we are seeing the first signs of that. I can't say that it has already happened. It is still a long distance to go. But yes, the waterproofing market, we see the market itself growing substantially. Our objective remains to hopefully get the larger share of that growth.

Anand Shah: Got it. And within the waterproofing segment, is it possible to share what would be unorganized or these regional local players? And is it that just organized is gaining quite a bit of share from that segment as well?

Bharat Puri: See, unorganized is not so large. Actually, in waterproofing, you are competing against nonconsumption because the consumer does not know. So, they do very basic or no waterproofing. So actually, it is not so much about unorganized and small-scale sector as it is about nonconsumption itself. People not doing anything and therefore, then suffering leakages and problems later.

Anand Shah: Got it. That is very clear. And my second question on this waterproofing, the trade channels that you are developing are, essentially, very relevant in these times. I mean you have seen big pickups in E-com or in Modern Trade or Pidilite Ki Duniya, any color you can share on the salience of this, what particular portfolios are working for you in this?

Bharat Puri: Absolutely. You see, the simple thing that we have done last year in a sense is focusing on making ourselves stronger. And one of the things that we have done very aggressively is both A) aggressively expanding in rural and small-town India. For many years, we have called that out, for example, as an opportunity. For example, in the year like last year, while most people who are holding their manpower constant, if not cutting down, we actually added people in rural and small town because we saw that growing. We added about 700 new sub-stockists in rural India. We added about 60,000 new outlets. We're covering 7,000 new villages. So therefore, at an overall level, we are clear that we have to keep strengthening ourselves. And rural, small town, e-commerce, for example, obviously, growth rates do not matter because the business has gone up for 5x, but we focused on that.



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Modern trade has come back very strongly. We are clear that as part of our strategy, making sure that we continuously access what we, at Pidilite, call sales excellence, which includes, visibility, availability and the quality of availability across different channels. We are pushing it that hard. And frankly, that has given us good results. One of the reasons why we believe we have grown faster than the market is because we have accessed a much larger part of the market than we had.

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

Nitin Shakhder: I noticed in the stand-alone statement of assets and liabilities, 31/3/2020 versus 31/3/2021, so financial assets investments is down from INR 715 crores to INR 169 crores and trade receivables is up from INR 806 crores to INR 999 crores and cash equivalent position is down from INR 564 crores to INR 109 crores. So, wanted to understand why the cash position and cash equivalent position is down. And why is it that in the financial assets of investments, we are showcasing INR 1,108 crores and the end of the year, INR 3,312 crores. Can you just explain the fine numbers behind the cash position on the bank balances and the investment differences?

Pradip Menon: Sure, the first thing I'll call out is the cash part. I think, as you know, we had the significant acquisition during the year of the Huntsman subsidiary, which was worth about INR 2,100 crores. We funded that from our own internal investments. So obviously, the investment position if you compare March '20 versus March '21, there will be significant difference because the entire payout happened in November '20. And therefore, that's not really strictly comparable. So that is one part. As far as the individual current asset numbers are concerned, again, if you recollect, March '20, we had lockdown in the last 5 or 6 days of the year or 6 to 7 days in a year. So, things like debtors, etc, would not reflect a full completed month of business. Here, we have a period of March '21 where we are going at a certain growth rate, and we have seen the growth rates of over 40%. So, when you compare absolutes, you will always see the numbers are higher. But if you look at the number of days of trade receivables as an example, or the number of days of inventory, we have actually had a significant reduction on both number of days of inventory and the number of days of receivables. I think you have to look at that in terms of the sales that you are doing rather than the absolute numbers.



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Bharat Puri: Firstly, other invitation I will have for you is that because we had funded the full acquisition out of internal accruals, in a sense, what we have also done is improved our return substantially because all of you know that currently, treasury returns are fairly minimal. The fact that we have been able to use that money in a business which we believe is obviously already generating a far higher rate of return is something that is advantageous to us in the long run.

Moderator: The next question is from the line of Sunita Sachdev from UBS Securities.

Sunita Sachdev: Sir, my question was more in reference to the construction chemicals industry per se. You have obviously been a very strong part of most of the areas. But just trying to understand, do you have any admixtures or any particular strategy where you would kind of address that part of the market as well?

Bharat Puri: See, we have looked admixtures. In the initial stages, we did have them. However, we believe that is a commodity business. And Pidilite is a value-added branded player. And therefore, we exited admixture years back. It is a pure commodity, I hope I am not on the offense. It is almost like selling cement. It is not where we want to be. And therefore, we exited. We do not believe it is critical to our construction business so if we had to go up a value chain, we want to get into far more value-added products.

Sunita Sachdev: So that part of the market being commoditized, you have kind of decided not to be part of it. But overall, with a view to construction chemicals, is it like INR 10,000 crores? Or how big would that market be overall on construction chemicals?

Bharat Puri: It is very, very difficult to estimate because everybody has a different idea itself of what is a construction chemical. So therefore, very, very hard to say because there are various kinds of chemicals that go into construction. They could be for different purposes altogether. So, my own advice would be, Sunita, I would not hazard a guess because we first have to define what construction chemicals are, then look at the size of the market. If you were to look at just the waterproofing part of the market, no, it would definitely be much smaller than INR 10,000 crores.

Sunita Sachdev: Right. Absolutely. And lastly, if I may, I just wanted to ask you in terms, for the construction chemical industry, obviously, having a rock-solid real estate sector and real estate sector doing well is important. And given the second wave, can I get any insights



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from you as to where are we in terms of the real estate upswing that we have seen last year? And how are they managing now on the current?

Bharat Puri: Very early, just too early to say. We did see real estate going through a certain amount of resurgence, if I may put it, in the 6 months between September and March until we ran into the second wave. Also, in a sense, there is a pause and we don't know where it's going to play out. But just remember, Sunita, we think the overall waterproofing of construction markets, there are 4 big buckets we claim. There are 2 homes - individual homes, organized real estate, which you are referring to which is largely large towns. There are individual homes, which is pretty much 70% of India. There is large institutional market, which could be, for example, the Parliament house in Delhi or it could be factories coming up or new headquarters of company, IT centers, etc. And then there is repair and renovation.

Moderator: The next question is from the line of Nitin Jain from Fairview Advisors

Nitin Jain: So, I just have two small questions. In terms of the waterproofing business, is it possible to quantify what is the contribution to the overall portfolio? And are we losing market share to the paint companies here? Because every quarter, we get to know from the paint companies that they are gaining in the organized sector.

Bharat Puri: I can answer the second part. The first part is very difficult because it depends on the proportion of what numbers are available. I can tell you definitely that we know our growth rates, and we see the thing in the marketplace. Remember, as I said, please remember that waterproofing is these 4 segments that I just referred to Sunita, which is organized real estate, individual new home, repair and renovation and institutional. Remember, the paint companies tend to play a large part in only 2 of these 4 segments, not all 4. But having said that, frankly, our own belief is we are by no stretch of imagination do we believe we are losing market share. We believe that, yes, the market is growing fast. We think we are maintaining and at times in certain markets we may be gaining. But let's say, at an overall level, we believe we are maintaining our share in a fast-growing market. And yes, I mean in any market that is growing fast, you will see a lot of entrants. But frankly, I would look at their staying for over a larger period of time rather than look at 1-year periods.

Nitin Jain: Okay. And my follow-up is regarding the Pidilite Ki Duniya (PKD) stores. So, they seemed to have shown a really good growth there. What is the overall strategy here for like the growth plan for the next 3 years or so?



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Bharat Puri: See, we are very clear that rural India offers Pidilite a great amount of scope equalized. Even for income, we believe that there is a lot of runway for us in rural India. One of the things, however, in the categories that we operate, just making our product available does not help. We have to make our product available and then we have to train people in the usage of the product and, in a sense, create the categories. PKDs are one avenue of doing that. And like this, we have a number of plans, which we are doing in rural India, and that's working very well for us. One of the reasons why our growth rates are higher than the average is that in rural and small towns, we are doing much better than most.

Nitin Jain: Okay. And sir, are these like exclusive stores or multi-brand outlets?

Bharat Puri: No. These are multi-brand outlets where we train the fellow in our outlets. But remember, given that these are all in villages with populations of 5,000 to 8,000. So, in most cases, we are amongst the only people who access these people. Most of the other fellows, they end up buying the product from wholesale. We are amongst the only company that actually reaches there and then does work with masons, with carpenters and plumbers and training the product and then building it. But these are multi-brand, these are not Pidilite outlets.

Moderator: The next question is from the line of Kedar Kailaje from Fortress Group

Kedar Kailaje: Congratulations on a good set of results. My question was on the waterproofing segment. You mentioned that this is a future growth driver and you are also focusing a lot on that. So, given that the competition is going to increase, a lot of the paint companies are also entering. Do you think it will have a pressure on your margins and pricing you have to have a different strategy? I just want your view on that.

Bharat Puri: See, this question gets asked all the time. See, firstly, remember the paint companies are not entering now. I mean, for example, the paint companies have been in waterproofing over the last 5 years. This is not something new. And it's only that newer paint companies as the smaller ones see the bigger fellows and they also want to make an entry. At an overall level, we do not see our margins being hit. This is not price competition here. When you are trying to protect your home for a period of time, you want a trusted brand which does the job rather than look at price. And therefore, we have not seen our margins being hit and we don't see them being hit over a longer period, it is not a price competition game. It is about brand and service and, the products that we offer, product superiority



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- Moderator:** Ladies and gentlemen, due to time constraints, that was the last question for today.
- Jigar Shah:** Thank you, everyone, for joining the call. And thank you, management, for presenting an opportunity to hold the call. And now I hand over to management for closing comments.
- Bharat Puri:** Okay. I will just give a set of closing comments. I think a lot of questions have been answered. So, what had been answered in questions, I won't focus on. I just wanted to give an overall view of how does Pidilite view the overall market / situation. We said this last year and we said the same thing this year. As far as we are concerned, we are focused on the India story over a longer period of time. The pandemic is extremely unfortunate, but it is a reality. And obviously, therefore, our first priority becomes safety and security of our people and of our extended business ecosystem, whether it is our dealers, whether it is our users, etc, and we have actually taken a lot of steps to try and help them. We actually did COVID insurance for our carpenter community, for our masons' community, etc. So, step one is in this situation, focus on agility, resilience via, first, ensuring safety and security of the network. The second thing is we have continued to substantially invest in getting our supply chain to be agile and be much closer to the customer. So, something that does not get talked about a lot. Over the last 1 year, we have actually completed 7 brownfield projects, 1 greenfield project in Vizag. As we speak, in progress, our 10 new greenfield projects, 10 new factories that Pidilite's coming up for different product ranges across. Our Capex remains at the same INR 300 to INR 350 crores a year. We have actually upgraded added space or added new warehouses in 10 of our warehouses, again, in terms of getting closer to the customer. We have made a substantial amount of expansion and substantial amount of investment in the rural small town, and I talked about that, so I won't repeat that. The other thing that I'd like to mention is Digital. I think Pidilite has always been a digitally adapt company, but we are trying to push the envelope. Today, we have got all of our distributor force, all of our sales force, everybody operating digitally. 87% of our dealers are on a pure auto replenishment. Therefore, there is no need for us to take orders and so on. All our major end users now have loyalty apps which are being regularly scanned. Our field marketing has got totally automated. For the retailer, we have a dealer, Genie app, and we already have more than 3,00,000 dealers who are actually dealing with us on that app. So, a whole set of measures, which I can take you through. But one of the reasons of our competitive edge has been digital and this is something we are pushing substantially. The other, obviously, is innovation. All of you know that Pidilite is known for innovation, not just innovation in communication and advertising, but also in products. So, we have had a



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whole set of ranges of products, whether it be in the construction chemicals or waterproofing area, whether it be in the sealants area, which we continue to introduce the moment the markets came back. And that is, again, been a significant driver of growth. And in the end, I think there is this amorphous thing, which we all call culture. I think at Pidilite, we have always said that it is crises that test the character of a company. And if you look at the last 12 months, Pidilite's culture has really, in a sense, been one of our factors that is we were voted as one of the great places to work, so on. But more than that, it is just that people putting up their hands, owning their consumer, owning their customer and therefore, ensuring that even in these times, we deliver service that is hopefully an edge better than others, has been the overall Pidilite picture. So, I thought let me just give you an overall picture. Maybe the only other thing is, we had always said that we believe that Huntsman is an accretive and a very strategic acquisition for us. As you can see in the 6 months of the results that we are already on that road very strongly.

Pradip Menon:

Bharat, all points are covered. If you have no other point, I just wanted to end the call by wishing everybody on the call to stay safe. And hopefully, you and your extended families are able to get through the situation absolutely fine. And hopefully, we will come out all stronger at the end of it.

Moderator:

On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)