24th May, 2022

The Secretary
BSE Ltd.
Corporate Relationship Dept.,
14th floor, P. J. Tower,
Dalal Street, Fort
Mumbai - 400 001
Stock Code – 500331

The Secretary
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051
Stock Code - PIDILITIND

Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 19th May, 2022.

Kindly take the same on records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

Manisha Shetty
Company Secretary

Encl: as above

“Pidilite Industries Limited
Q4 FY2022 Earnings Conference Call”

May 19, 2022

ANALYST:	**MR. KRISHNAN SAMBAMOORTHY - LEAD CONSUMER ANALYST - MOTILAL OSWAL INSTITUTIONAL EQUITIES**
MANAGEMENT:	**MR. BHARAT PURI – MANAGING DIRECTOR – PIDILITE INDUSTRIES LIMITED** **MR. SUNIL BURDE - VICE PRESIDENT – ACCOUNTS – PIDILITE INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2022 earnings conference call of Pidilite Industries Limited hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Krishnan Sambamoorthy, Lead Consumer Analyst, Motilal Oswal Institutional Equities. Thank you and over to you Sir!

Krishnan S: Thanks, Rutuja. On behalf of Motilal Oswal Institutional Equities, I welcome you all to the Q4 and full year FY2022 post results concall with the Pidilite Industries Management. We have with us Mr. Bharat Puri, Managing Director and Mr. Sunil Burde, Vice President Accounts. Over to Mr. Burde for opening comments after which we will take the Q&A.

Sunil Burde: Good evening, everyone. The current year registered a robust sales growth aided by strong volume growth across categories and geographies. Growth was broad-based across Consumer and Bazaar and Business-to-Business segments with both segments reporting volume growth of over 20% each. This was strongly enabled by the focus on digital initiatives, innovation and building a resilient and agile supply chain. The current quarter witnessed price led growth with volumes remain subdued on account of pandemic and persistent inflation impacting consumer demand over previous year higher base, 45% percent growth in the same quarter last year. The margins remained impacted adversely by unprecedented inflation in key raw materials, as a result of volatility and increased input cost. This was particularly mitigated by calibrated pricing actions. In this difficult macro environment, we continue to make adequate investments in our brands.

Now I will begin with a summary of the financial performance for the year and quarter ended March 31, 2022. On consolidated basis, net sales at Rs.9,880 Crores for the year grew by 36.3% with growth in C&B by 34.2% and B2B by 44.6%.

Net sales for the quarter stood at Rs.2,498 Crores and grew by 12%. Material cost as a percentage to net sales for the year is higher by 853 basis points over previous year and for the quarter is higher by 738 basis points of the same quarter last year. Due to the increase in price of key raw materials, the gross margin continues to get adversely impacted. We are continuously monitoring the input cost and necessary pricing actions, if any, will be taken. EBITDA before non-operating income for the year is at Rs.1,869 Crores grew by 11.1% over the previous year. Profit before tax and exceptional items at Rs.1,614 Crores grew by 5.7% over the previous year. PBT for the current quarter stood at Rs.346 Crores and declined by 16.6% over the same period last year.

Now moving to the standalone financial performance. Net sales for the current year at Rs.8,298 Crores grew by 34.1% over previous year with underlying sales volume and mix growth of 19.9%. This was driven by 20.2% growth in sales volume and mix of both C&B and B2B each. Domestic C&B grew by 20.9% in volume, net sales for the current quarter stood at Rs.2,075 Crores and grew by 12.1% over the same period last year. The prices of our key raw materials VAM have continued to increase during the quarter, current procurement is around $2,500 per metric tonne, Q4 2022 VAM consumption rates were $2,420 per metric tonne versus Q4 2021 of $1,180 per metric tonne and compared to Q3 2022 it was $1,968 per metric tonne. Gross margin impacted on account of inflation in input cost resulting in all-time high prices for most of the principal raw materials. Material cost as a percentage to net sales is higher by 960 basis points over previous year and for the quarter is higher by 922 basis points for the same quarter last year.

EBITDA before non-operating income for the year is at Rs.1,612 Crores grew by 4% over the previous year. Profit before tax and exceptional items at Rs.1,627 grew by 11.7% over the previous year, profit before tax for the current year stood at Rs.397 Crores and grew by 5.6% of the same period last year. On a like-to-like basis excluding dividend from subsidiary, profit before tax declined by 1.5% for the year and 20% for the current quarter.

About our subsidiary performance, the subsidiaries in Asia continued the growth momentum. Subsidiaries in Americas declined on a higher previous year base. During the previous year sales were higher on account of pent-up demand as well as benefits passed by the governments to consumers during COVID, margins continued to remain under pressure due to higher input cost. Domestic subsidiaries in C&B reported goods sales growth. Performance of domestic subsidiaries in B2B are showing signs of revival on account of recovery in real estate and construction related activities. During the year, the company had filed two merger applications with the National Company Law Tribunal with respect to the merger of its wholly owned subsidies namely Pidilite Adhesives Private Limited and Cipy Polyurethanes Private Limited. Consequent to the filing of the NCLT orders approving the merger with the Registrar of Companies, mergers have become effective from the appointed date of April 1, 2022. As a result of merger being an event happening after balance sheet date, no effect of merger is given in the financial results. While there are near-term concerns around significant inflation and the impact of this on market growth, we are confident of the medium to long-term prospects of the home improvement sector and will remain focused on delivering consistent and profitable volume-led growth. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss Securities.

Abneesh Roy: My first question is the competitive intensity in adhesives from regional players, could you talk about in the last one year, have you seen any big change there and you have been extremely aggressive on M&A in the last many years, so does this open up more inorganic opportunities in India in the regional case, do you think you can acquire some players, is there good valuation opportunity or mostly you have already covered up most of the white spaces?

Bharat Puri: See the competitive intensity, frankly over the last 12 to 24 months has actually been lesser than normal, largely because of two reasons - I think many regional players have suffered because of their supply chains being impacted as well as the impact of this whole input cost inflation on them. On competitive intensity, we have new competitors coming in frankly every quarter there is somebody getting revived or a new competitor coming in. Given our shares and position in the market, obviously if you were a consultant, you would tell fellows that even if you get 10% of this market it is a very attractive proposition. So, we have had a fair amount of people entering but from an intensity point of view, the large amount of competition tends to be at, what I call the discount end of the market were based on high dealer discounts, high contractor allurements, lower pricing to the trade is really where a lot of the action has been. As far as M&A is concerned, when we find the right players who frankly have a brand or a route-to-market then we will look at them but obviously that will be opportunity dependent.

Abneesh Roy: One follow-up, globally every RM has been extremely inflationary; for you also VAM has doubled in the last one year, could you discuss in the last few months what is the reason, is the same old issue of container shortage or geopolitical? If the geopolitical issue gets resolved, do you see a big crash coming given in China there is specific slowdown; do you see that happening at some stage, I am not asking when, I am asking will that happen given the supply demand scenario?

Bharat Puri: See given the supply-demand scenario, currently frankly a large number of these shortages are happening because of force majeure where plants are, I mean from the outside and obviously I cannot say definitively, but there definitely seems to exist almost some cartelization where plants seem to coordinate their closing so that the amount of stock that is available in the global market remains almost constant. Having said that, you are right that if plants were to operate normally and China was to remain depressed you will have suddenly an excess of supply over demand, but we do not know when that will happen.

Abneesh Roy: Sure and last question on the demand side so in Q4 there was one month obviously of the Omicron impact so was that substantial in any of your demand industry segments and similarly in FY2023 do you think real estate which has done really well in last one year wherein you supply lot of products to the real estate players, do you see a slowdown coming at some stage given interest rate hike real estate prices are again going up in the last one year, have you started picking up some kind of impending slowdown there?

Bharat Puri: Coming to the first, as far as demand is concerned Abneesh you have had a lot of local stoppages as a result of January had Omicron and some amount of supply stoppages, a lot of shop closure some of it which extended to February but if I look at a longer period of time frankly largely demand has still been good, there is some amount of slowdown and now I am purposely looking at a longer period even if I look at post Diwali right till today overall demand is still good. There is some amount of strain in rural and semi-urban India, inflation is the massive tax that any emerging economy and common consumer pays. Having said that, we are hopeful that if we have a good monsoon, the government actually does spend what it is projected to spend on the budget and front load some of it you will have a lot more money coming into the economy in the second half and therefore into people's hands, so I think on demand, I will use my usual phrase of being cautiously optimistic. On the input costs, very difficult to say because geopolitics has definitely impacted, and you can see the price of crude oil so and right now it is not clear as to where is the light at the end of the tunnel and when will it emerge.

Abneesh Roy: Sure, and one last follow-up. You are a FMCG veteran. FMCG companies are ramping up on bridge packs because Rs.5, Rs.10 is a big challenge and, in your case, also Rs.5 has been extremely strong product and it is a great draw for the consumer but are you also thinking of bridge packs in Rs.5, Rs.10 and Rs.20 in that range any bridge pack you are coming out aggressively?

Bharat Puri: We have been very conservative, and it is almost an oxymoron. We have been conservative and aggressive. We actually have not moved, having been one of the pioneers of Rs.5 price point in chocolates, I must tell you that on things like Fevikwik and so on and so forth, we have not moved our price point now for 15 years and even in this inflationary situation we have not moved the price point so frankly we do not see the need for bridge packs for two reasons, one is obviously we already straddle the price points that we want to. The second point is in items of mass consumption where there is down trading you would obviously need bridge packs. In our case most of our consumers tend to be middle class and above and therefore when you are doing the house, there are very little minor jobs that you do. The smallest pack tends to be at least a five-kilo pack.

Avneesh Roy: Okay Sir that is very useful thanks a lot.

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

Tejash Shah: Sir if we look at growth and margin pressure from the core, pioneer and growth categories that divide the portfolio, segregate portfolio, are there any divergent trends on growth and margin pressure?

Bharat Puri: Actually, the largest margin pressure, it is a coincidence I do not think it is anything that is part of a trend, is actually on the core category. The growth and pioneer tend to have at least in the last 12 months while there has been pressure, there is pressure across the portfolio, but the highest pressure has been on the core portfolio; little less on the growth and pioneer.

Tejash Shah: In your opening remarks you mentioned that this is an unprecedented inflationary scenario and then the closest difference that we can make is somewhere around 2009-2010, when we had taken a slightly late but aggressive price hikes over a period of time and when the crude correction happened later on, we actually retained a lot of that price hike in our P&L. Hypothetically if that scenario has to play out in FY2023, do you think that competitive pressure as it stands today will allow you to retain a lot of this price hike that you have already taken or you will take going ahead in coming quarters?

Bharat Puri: What will happen is, why we always indicate a margin range is largely because, if the situation turns benign post our having taken the price increases obviously, we will give back a large part of it to the consumer, but we will then obviously end up at the top end of our margin range is what my presumption is.

Tejash Shah: Okay so even in the interim you would not allow margins to cross that upper range that you have given for long term?

Bharat Puri: They may cross for one or two quarters, but we would prioritize growth. Our experience has been that, if you take margins a little too high you open the back doors and a lot more competitors start pulling at the carpet before you realize it and then you are slipping so we like to make sure that our price premiums and pricing remain focused on growing volumes rather than in the short run growing margin.

Tejash Shah: Fair point and any capex guidance for this year and next year?

Bharat Puri: As far as capex is concerned, I must tell you one of the things and I have spoken about this earlier we were very clear that use this period to build the next generation supply chain so I must tell you that over the last two years we have expanded or put in 10 new facilities and in addition to these 10 facilities, we have 12 facilities currently under construction all of which will be complete in the next 12 months so we will be frankly ready for the next phase of next three to four years of growth, we will be completely ready from a capacity perspective. Our capex still remains at the traditional 3% to 5% of sales that is not going to go up but because our sales has gone up, obviously now the amount of investment we are making in the supply chain be it new facilities, be it new warehouses separately the investment we are making in digital for example, we would regard ourselves as one of the companies at the leading edge of digital as far as both consumers and dealers are concerned. Today we are now getting almost 20% of our dealer orders via genie app where dealers do not actually know salesmen, no distributor comes in, all is done via an app. The same thing is getting extended to contractors, so there is a massive amount of investment in an agile and resilient supply chain, there is a massive investment in the whole digital piece which in a sense we learned during COVID, and we do not want to lose. Innovation has traditionally been a strength area of Pidilite. This has been an area where in the last two years obviously we were focusing on the core because of the situation on ground. In the next 12 to 18 months, you will practically, from each of my divisions see one new product every quarter so the innovation machine is also ready to fire. While in the short run, yes, the inflation situation, the input cost situation is something of concern; frankly we are long-term players, and we are quite confident about not just the long, but the medium-term prospects of the home improvement sector and we are ready for the next phase of growth.

Tejash Shah: Very, very detailed answer thanks a lot and all the best Sir.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Basically, how have are our market shares moved in waterproofing in past one year and three years and if you can indicate any market share trends even if it is indicative in the four regions West, East, North and South?

Bharat Puri: As far as waterproofing is concerned, it has been one of our strong drivers of growth and not just this year or last year but over the last 24 to 36 months. Given our growth rates, I would say the market is consolidating, the number of players in the market is becoming a lot of the small and medium sector is suffering and the larger fellows are getting larger. I would suspect we would have gained some market share or the market would have grown aggressively and therefore our market share would be constant, but it is a market that in our view what is most important is the market grows faster rather than you take share from others because obviously the largest single opportunity is winning against non-consumption, given that pretty much six out of ten consumers in India do not do any proper waterproofing so that is the overall situation as far as waterproofing is concerned. On overall Pidilite also if you look at our growth rate, our belief again is in our core categories be it white glues, be it Fevikwik, we have gained some share largely because when times are difficult both from inflation and input cost point of view as well as a supply point of view, the leaders tend to gain and consumers tend to gravitate towards brands that they trust but it will not be a substantial movement but it will be a steady increase in market share. There is no substantial difference that we find in our performance across regions which tends to show that you we could have gained more in some area. Our performance is largely secular, one state one year may have some issues etc but if I look at a two-three-year basis, the ship is moving steadily forward pretty much across the board.

Aniruddha Joshi: Because multiple paint companies have been gaining market share but again, I believe that they are gaining market share again from the unorganized sector?

Bharat Puri: Most of the paints company participate in what I called renovation and the repair segment, a lot of them do not participate in new construction segment because there the whole channel tends to be different plus paint companies tend to add their exterior paint sales to waterproofing so they add to waterproofing numbers. In our books if that is actually exterior paint which may perform some amount of protective cushion so if you add exterior paints etc., then the paint company figures look nice, but they have had exterior paints for 25 years and earlier it was never called waterproofing.

Aniruddha Joshi: Okay understood this is clear. Very helpful thank you.

Moderator: The next question is from the line of Mr. Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan S: From a technology perspective, what have been the efforts in reducing the pipeline inventory over the last few years and what are the benefits that you got from reduction, can you quantify those?

Bharat Puri: Very good question, basically what has happened is what we have done over the last two years is we have virtually taken the salesman out of the equation as far as inventory is concerned. Today across Pidilite division, 80% and therefore pretty much all of the major distributors are on a replenishment model, which therefore means that no salesman takes orders, the concept of month end or period end stocking up etc., is all something of the past. Everything is based on replenishment, salesman do not take orders, dealers can order directly, which goes via the distributor so we now, and while obviously during COVID in some cases we actually built up inventory because of supply chain shortages, plants being closed in certain affected areas and given normally that April, June tends to be a big period for us especially in the areas of waterproofing etc., we build up a little inventory but the dealer pipeline frankly over the last 24 months is now firmly in our control and not an issue of concern at all for us. It is not something where I would say major reduction has happened because we have actually made this reduction now over a number of years, but it is again an area where we are clear that based on product, we have a fairly well-defined algorithm based on the speed of the rotation of the product and how much stock a distributor carries and that is now standard for all our divisions.

Krishnan S: While you did indicate earlier that there is less or lesser margin pressure compared to in the growth and pioneer categories what about working capital, is that is that proving to be longer than you had expected in some of these categories, or they are very much in control?

Bharat Puri: No, with our retail footprint and our ability to influence in retail we are not finding a substantial difference in working capital across the categories at all. Where we find the difference actually is the difference between B2C and B2B. B2B tends to have longer working capital but that is always been the case and that is not something new.

Krishnan S: Got it and staying on working capital, anything to call out on the international business, anything unusual?

Bharat Puri: Right now, of course the issue of concern, though not big for us, it is fairly small, but it is still an issue of concern is the closure in Sri Lanka. We were actually doing quite well in Sri Lanka over the last 24 months. Bangladesh has been a massive success story for us, you can see the numbers and you can see that Bangladesh is virtually becoming another West Bengal for us which is very good. Overall you can see that what we have done and we had talked about this a number of years ago that we are going to be an emerging market specialist and we will keep gaining in emerging markets and you can now see that all of our international operations are profit making, our operations that are now you know in a sense synergistic with what we do and are doing fairly well so today over a 1000 Crores of our sales comes out of exports plus international and it is growing at a steady rate. There are no sudden ups and downs and that is a matter of fair amount of quiet pride for us.

Krishnan S: Okay and nothing to call out on working capital?

Bharat Puri: No issues of working capital absolutely.

Krishnan S: Very clear thanks.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: I would like to hear a little bit more about, you mentioned that every quarter there will be an innovation from Pidilite so are you referring to some big bang innovations, is there even an opportunity in the core Fevicol portfolio, the way we had seen in the past the Marine, Hi-Per and HeatX is an opportunity of innovation on that front or you are referring more towards innovations within the construction chemicals portfolio such as tile, adhesives and other such products?

Bharat Puri: I must tell you unequivocally we are referring to innovation both on the core as well as the growth category and just as in the past we have done the Marine, Hi-Per and HeatX now obviously for confidentiality reasons I cannot tell you what you will see coming because that will give a red flag to my competition, but you will see innovations across both our core as well as our growth category. You will see a lot of these, we are looking at innovations that move the needle for us. At an organization level, the numbers that we set for ourselves is that one-third of our growth must come out of innovation, and we are well on our way now we have got the pipeline ready to do that.

Jaykumar Doshi: Understood and this we will start seeing from FY2023 I mean the next one or two quarters?

Bharat Puri: You will start seeing from the second quarter of this year itself.

Jaykumar Doshi: Second is, I understand that you are catering to a different market when we think about waterproofing and paint companies are catering to a different market but when we compare the numbers, even on scale terms that value-added coats, waterproofing with auto proofing functionality has probably exceeded the waterproofing portfolio that you have. Now we are seeing similar trends in adhesives as well I believe that paint companies are very aggressively selling low-priced tile adhesives. That is a category that is growing very well for you but my understanding is you are not participating in that commoditized tile adhesive product so from a long-term perspective, how do you think about the aspect that paint companies have always focused on mass, economy, scale, volumes and you as an organization have always focused on high margin niche businesses but they are entering some of your core categories or future growth categories through that mass and volume game so how do you think about that new competition in construction, chemicals and waterproofing where until maybe three years back we thought that it is Pidilite and some of the international players. Now it is Pidilite, paint companies and of course the international players.

Bharat Puri: Let me answer that question in three parts. First, as far as waterproofing is concerned frankly the paint companies have just redefined their definition of waterproofing and added exterior paints and so on so forth which were coatings which just as an anecdote as a young marketing manager I launched Apex in Asian paints about 20-25 years ago, we never saw it as a waterproofing product right so now to put it as part of your waterproofing portfolio that is a choice that you make. If you look at pure waterproofing, we have always maintained that there is a right for paint companies to play in the repair and renovation segment because in India given the quality of construction, consumers tend to repair, renovate and waterproof because there are leakages. In the rest of the world, repair and renovation is one-third of the business, two-thirds are new construction and India is pretty much the other way around though now new construction is gaining. In new construction, the paint companies tend to play much lesser because in new construction the consumer actually ends up with the steel and cement outlet and not in the paint outlet, paint comes only, and you have to do waterproofing when you are constructing not after construction is complete. Now therefore when I look at the overall segment frankly I do not see any gaps in our portfolio; yes, now a choice of whether we should play more aggressively in what we call paints rather than waterproof coatings is a choice we have to make which we have up to now said that listen, we still believe there is a massive market for us to address in terms of non-competition and converting people to using waterproofing and that is where our focus has been. Paint companies have tended to ride on our coattails and try and then look at how can they get a share of that. Therefore, if you look at the institutional market, you look at the large market the competition is still frankly the large multinationals and the paint companies largely do not play. Now they would like to play there but currently they do not, similarly if you look at areas like tile adhesives, the bottom end of the market is purely commoditized. It is like what if I was to give you a paint analogy, it was what dry distemper used to exist 30 years or 35 years ago and slowly people went to oil bound and then acrylic distemper and then emulsion how we have basic tile adhesives too but we begin at a level where we believe that there is a certain minimum quality that must be offered and frankly when I look at my growths in both waterproofing and tile adhesives without any doubt we are gaining, we are not losing in any way so these are strategic choices that companies make. In the short run, the volumes look good. If I was to actually add back my tile adhesive volumes and equate the kilos of tile adhesives to the kilos of white glue that I do, actually my volume growth rates will go up by 10% or 12% but frankly I think that is in a sense doing a disservice to you people and to ourselves, so we do not do it that way.

Jaykumar Doshi: Understood, one final question now Huntsman portfolio seems to have stabilized around quarterly run rate of Rs.140 Crores – Rs.150 Crores which is about 50% higher than what at the time when you acquired, it so is the entire distribution benefit captured or is there any low hanging fruit as far as distribution and topline is concerned for Huntsman?

Bharat Puri: There is definitely a low hanging fruit and a distribution runway yet. We are still I would say we are only two-third of the way there, there is still one-third of it still has to be captured for while Araldite is a leader, in my book it is still a growth category and you will see in the results hopefully in the next 12 months that we are not going to come back saying that hey this is a mature category, this is the growth category. We have shown over the last two years that we have beaten the acquisition case and what we said by a large number, but we still believe there is a lot more to go.

Jaykumar Doshi: Understood. Thank you so much.

Moderator: The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir in the initial remarks you indicated volumes remain subdued on account of pandemic and persistent inflation so just wanted to understand if you could bifurcate your portfolio into two broader categories. When we say demand excess say something like price elasticity of demand with the overall construction cost moving up or is it the inflation impacting discretionary expense, how should one understand this better?

Bharat Puri: To my mind there are two different ways of looking at this. When we said demand was subdued what tends to happen in an inflationary situation is whenever you are raising prices, the trade tends to stock up. So, one quarter looks much better than the other and therefore while primary sales may not look so good, secondary sales frankly evens out. The second thing is in the pandemic obviously what happens is there are closures, cities are closed and in January and parts of February we again had those, you cannot open on the weekend, you can only close and so and so times etc., that obviously impacts work and therefore work that should get completed in one month takes three months or more to complete and that impacts the demand. The third thing is if you look at the consumer purchase basket, prices of everything so while we are a very small part of home improvement; if a person is building a home in say rural India and I was in rural UP two weeks back and what the fellow was saying is Sir if you look at the increase in cost of steel, cement, paint, suddenly the consumer needs another 20%-25% over last year to make the same room or to make the same two rooms and that obviously therefore like you know he tends to cut down because he got a fixed income so where we are seeing actually demand subdued is in small town rural and wherever there are economic challenges, the rest frankly in our view will even out over a period of time.

Ritesh Shah: This is quite helpful but Sir when we say this is something which will even out, what gives us that confidence given I think crude inflation is pretty steep, the actual discretionary spend is actually a question so it will come back but what gives us the confidence that probably said three months or six months how do I understand that?

Bharat Puri: Two things again, I share your concern because having seen this earlier whenever there have been periods of high inflation there is an impact on volumes, and it normally starts from the bottom end and then extends. Having said that, we are seeing some amount of tailwind for example Abneesh spoke about the real estate sector - clearly there is a revival in the real estate sector up to now and we are not seeing at least any signs of slow because suddenly you can see a slew of new projects being announced. So, whether it is real estate, whether it is the consumer spending a lot more post the pandemic on home renovation, on home upgradation and the reopening of the whole commercial segment be it hotels, be it restaurants, be it shopping areas a lot of these that were closed or were semi-closed have had to renovate and open so therefore we are seeing that urban demand is still going decently. It is not depressed despite the kind of inflation we are seeing, but to declare success frankly I would wait another three to six months before I declare success.

Ritesh Shah: Second question is in the scenario that we are in what are the strategies one can actually adopt to maintain margin, are there any categories that we have wherein we even have an option to reduce grammage for our mass portfolio Sir if you can help me understand this?

Bharat Puri: Unfortunately you are reminding me of my good old confectionary days where every time prices went up, I must tell you there is a small anecdote when we introduced Rs.5 Cadbury dairy milk chocolate it used to be 20 grams I think it is now 5 grams or 4 grams so you can see the extent of pricing, but unfortunately we do not have many of those because as I said if you are making a table at home or you are making a chair or you are making a wardrobe, the amount of product that you are going to use is never in the smaller quantities where the consumer is going to downgrade substantially and therefore from a price point or margin perspective really what we have to do is while remaining conservative, keep making sure that we are slowly trading the customer to the newer price points, to the newer prices and getting her or him used to those price points because the way our product is used where price points matter we are obviously keeping those price points so whether it be a Fevikwik, be some of the children's art material etc., the other places we have to just keep making sure that we are being conservative and not taking it up too aggressively.

Ritesh Shah: Sir continuity to the same question is how do we look at the money that we put on the table for the dealer and the influencer when the conditions are tough, have we tweaked those variables, or do we intend to do that going forward?

Bharat Puri: If for example as of now values are still actually looking good for the trade so and so forth, so we have not had an occasion to tweak, but whenever we do face for example during COVID when we did face obstacles with influencers etc., we actually did deals with Paytm and converted all of our points to money so that the person could immediately get money so we have a lot of these means available to us which we keep working with the trade but when I take a step back and you look at our business growth over the last year, if your business has grown 35% then the trade is not so worried about margin as long as they are seeing that he volumes will keep growing going forward and therefore our objective has to be to keep focusing and making sure that we grow volume in this inflationary environment because obviously you do not want just empty price led growth.

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

Avi Mehta: I just wanted to understand, you highlighted that from a medium term or even if I look at beyond the quarter, demand environment has been relatively good and the fact that pressures are primarily in core, in that sense, would you argue that the gross margin has probably bottomed out, something that you had highlighted that it will bottom out in January/February in the last conference call as well? Or do you see some more near-term pain?

Bharat Puri: It is very difficult to say, in fact if you look at it in January/February we thought we will be in a period where we will start seeing some amount of softening and then unfortunately this whole geopolitical Russia, Ukraine happened, and everything turned on its head again. If I look at the supply demand scenario, the overall scenario at some point of time, it has to start evening out because capacities even today are far greater than demand, it is just that those capacities are not being realized but I would say in the next three to four months you will still remain at elevated levels probably only in the second half of the year that you will start seeing some amount of what I would say softening and that is when you would have to examine what the situation is. As of now, I do not see it going further unless there is one more black swan event, but I do believe that we are at an all-time high we have never seen raw material prices this high in some cases now unless there are some special exigent circumstances, we do believe this is probably close to the peak if not the peak itself.

Avi Mehta: Okay perfect and the commentary vice versa on margins as well right and that is the right way to read it then. When we don’t reach the normalized levels, but it will take some probably three to six months is what I hear you but?

Bharat Puri: It depends on what you define as normalized level.

Avi Mehta: Your range. Okay. Actually, what the range that you see for EBITDA range? Could you repeat? I mean, just for the benefit of everyone.

Bharat Puri: We see on a standalone basis we should be in between 20 to 24 and we have ended close to 19.5 and a half, close to that. To my mind, we will still be in these 20 to 24 ranges again unless there are some circumstances that are completely out of the blue, that will be our objective.

Avi Mehta: Okay, very clear and just the last question is essentially from a more medium-term perspective. If you were to rank categories in the pioneer segment, which one would you say would be the most likely to hit growth say, 5 years or 3 years down the line, which one would you call it out as?

Bharat Puri: Definitely tile adhesives.

Avi Mehta: Okay perfect and were you essentially arguing that the volume trajectory is something that you would still maintain- commoditized players are not going to be a concern as yet is what?

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Bharat Puri: Absolutely. In every market you will have, when you are creating a category, remember world over, tiles are always put with an adhesive. You use sand, cement and at least in India 8/10 are done with cement so therefore the scope is like massive across the spectrum.

Avi Mehta: Perfect and thanks a lot again for this and look forward to hopefully meeting you in person sometime soon.

Moderator: The next question is from the line of Priyum Daga from VT Capital. Please go ahead.

Priyum Daga: My question is regarding the VAM prices. Can I get any idea about the price hike that you have taken in the last quarter and the inflation that you have seen percentage wise?

Bharat Puri: As far as price hikes are concerned over the last 12 months, depending again on the category we have taken different price increases, they could range from 5% to 15%. In this quarter, we have taken some pricing in some categories in May, because we felt that the Q1 which is the Q4 pricing really was at the peak which we had not expected and therefore we needed to take price hike. Other thing we are just closely watching this and seeing that what we need to do next.

Priyum Daga: All right. And where do we see the VAM prices going in the next two quarters?

Bharat Puri: I wish I knew my friend. We thought $2000 is the right area for VAM prices but they are stubbornly at $2500, $2600, $2700 there are two major plants across the world that are closed which have declared force majeure. I frankly do not see it going substantially above this, it may be $100 above this at worst but we do believe that it has to soften over a period of time.

Moderator: The next question is from the line of Parth Kishore from KPearl Capital. Please go ahead.

Parth Kishore: Actually, I have seen that the inventories have moved up this year by around Rs.460 Crores so could you please explain why is the inventory building up being so high?

Bharat Puri: Basically, this is in preparation for our biggest quarter in the year tends to be part of the April, July quarter. Last year because of all of the issues around the closures etc., so we have basically had whittled down inventory so when you look at the comparison this year we are expecting a normal April to June and we built up the inventory substantially last year if you remember the whole period was massively challenged in the first quarter and therefore inventories tended to be low so it is A comparison, B it is an expectation of a better April-June.

Parth Kishore: Okay thank you so it is not because I mean there is a buildup at the dealer level or something like that the product is not moving?

Bharat Puri: When you will see this when we will meet for the April-June, the first quarter numbers you will see that inventories will be back to normal.

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

Tejash Shah: The question is partly academic in nature but just wanted to gain some perspective from your vast experience on how the broader industry is evolving. Cement players are getting into paints, paints are getting into adhesives, pipe guys are getting into adhesives and paints both. Has anything changed materially in terms of modes how we used to know all this in terms of distribution branding advantage that incumbents had and suddenly the way capital is flowing or getting fungible between the categories it seems that some of those modes are no longer relevant so just wanted to gain get your perspective on it?

Bharat Puri: That is a great question. While obviously all companies will look at adjacencies, it has always been the attempt of a large number of commodity players whether they be cement whether they be in equivalent categories steel etc., to try and keep moving up the value chain. In my view, it does not matter whether it is paint or whether it is adhesive or whether it is pipes, finally the three factors that in a sense contribute to your growth is the strength of your brand, the strength of your customer relationship and the strength of your user relationship and if you are strong on all of these three, looking at other people's multiples and a lot of times I mean I keep hearing anecdotally that all these people look at the multiples of paint companies or companies like us and feel that if they entered our sectors they would get the same multiple. But frankly from a strategic perspective you have to have a reason to win, or you have to have a reason to disrupt and the moat in terms of the strength of the brand the strength of the customer and user relationships and hopefully ability to service via a good supply chain. If that is strong, competition will come and go but it is not going to be easy for new players.

Tejash Shah: Fair points Sir. that is very helpful.

Moderator: Thank you. The next question is from the line of Sachee Trivedi from Trident Capital. Please go ahead.

Sachee Trivedi: The first one is you mentioned about your investment in technology and now that everything is on a replenishment model. Based on that on first of April of any year how much of your demand for the year do you already know?

Bharat Puri: That is a great question, but you see normally we will keep predicting and working based on we obviously have algorithms based on the last three months, based on the last one month, based on the last six months, so we have a fair idea, and you would look at your secondary sales not so much your primary sales. Look at any one-offs like for example when we will plan for this year's, first quarter clearly we will look at last year's so last year we had some amount of closures in May as a result of the wave of the pandemic you will equalize for that you will then add for innovation so on so forth or any local factors and then work that through I would say you have visibility hopefully and close to anywhere between 80% to 90% of your demand.

Sachee Trivedi: The second question is in a similar context. You talk about innovation, and you have launched very many products and some very good products over a period of time. How has training and educating your end users then and how has it evolved, how has the difficulty of that evolved over the years and particularly now with any number of competitors who are also trying to get to the same end user so could you talk a little bit about that?

Bharat Puri: I think again absolutely relevant question. In fact, what one of the things we pride ourselves on is the strength of our user relationships and our ability to forge long-term partnerships with our users which therefore includes a fair amount of training, a fair amount of information dissemination on a regular basis. Just to give you an idea we have 2,20,000 contractors each of whom will have anywhere between 5 and 50 workers who are pretty much in touch with us at least once in a quarter dealing with us so on and so forth. This is frankly our bread-and-butter business and making sure that the user is A) fully acquainted, B) sees our new products and C) has a strong relationship with us, is frankly one of the reasons of our success.

Sachee Trivedi: But has that education and training become more difficult over the years or has it become easier maybe because of technology or because you reach them on an app, how do you even reach them now?

Bharat Puri: We have apps for each of our users, we reach them via apps, we reach them physically. Last year for example during COVID, we did over a thousand user meets on Microsoft Teams. Now if somebody had told me two years ago, that carpenters will be sitting and doing meets on Teams you would have said listen guys are you sure this is possible but there has been that evolution, so we actually use digital very aggressively. We have a very robust database, so we are able to push information on a regular basis today a large number of the contractors have smartphone and therefore you are able to share information. A large part of our digital effort is really around the user and the dealer.

Sachee Trivedi: We talked a lot about adjacencies and particularly your competitors moving into adjacent spaces. As an example of a paints company here they are now also moving into let us say home decor and doing some of the paintings themselves, in your case you did take some strides and you took a stake in Pepperfry. Is that an area where you feel the need to enter building your furniture?

Bharat Puri: We do not want to compete with our customers, so we do not want to build furniture but as the digital world changes, we definitely want to understand and remain close to the consumer. We have investments in PepperFry, Homelane, LivSpace, we do that on a regular basis largely to make sure that we are completely on the ground floor as far as the new age consumer is concerned and where our business is getting oriented towards being able to serve the customer in today's environment, but we do not see ourselves as competitors to our customers in making furniture etc.

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Sachee Trivedi: What is it that you worry about and what is the data points that you are looking at on a daily basis or a weekly basis, the macro data point or even external sort of foreign data points of domestic data points and what are the data points you are looking at and what do you worry about the most right now?

Bharat Puri: Two data points and one softer point just to keep it simple. The two data points that I constantly worry about is A) first and foremost the price of oil because everything in our category starts from the price of oil and there is enough data now also in the Indian economy to show that I think over $80 a barrel every $10 increase impacts our GDP by X so really the two things I track closely is the price of oil and the actual inflation as far as India is concerned because again experience has taught us that, inflation is the one thing that impacts demand over a larger period of time and keep a close watch on that. On the softer point the thing I worry about is my people becoming complacent. As leader you have to be a little more paranoid and you have to keep looking over your shoulder and making sure that you are not taking anybody lightly. We do not take any competitor however small or big lightly and obviously we will not make it easy for them in the market, but we treat them all with respect and think that listen they must be having some strategy and we must be clear how we want to tackle them so one of the things I keep telling my people is we must keep guarding against complacency because when you have more than 70% share in a lot of your core categories that is a great nature.

Moderator: The next question is from the line of Suyash Maheshwari from Samco Mutual Fund. Please go ahead.

Suyash Maheshwari: Which business segment are we looking at for driving growth in the next two years?

Bharat Puri: We are very clear, we have always said we will grow our core businesses; the core businesses is where we already have a market leading position and our job is to grow the category so whether it be white glues, the wood adhesives whether it be Fevikwik whether it be M-Seal, these we would like to grow at rates of one to two times GDP. The growth businesses where we are competing against non-consumption and we have to teach the consumer. We would like to grow at two to four times GDP and pioneer businesses that we are very small or nascent today and we need to develop them we want to make sure that each of them becomes at least 100 Crores in three years that is our simple formula on how we operate.

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

Bharat Puri: Let me begin by thanking all of the participants. I always find these situations or these calls stimulating as well as thought-provoking because given the range of questions. Today we got a much wider range of questions and lots of new participants, so great to have them. At Pidilite, our whole focus is we see ourselves as they say a long-term player, a steady player who will make sure that we remain true to our strategy of being a pioneer, continuously evolving and growing category, creating categories, being innovative and being a great place to work and that has really been the focus of how we have been moving forward. A lot of times things like this do not cover get covered in call but for the third year continuously we have been voted a great place to work, culturally we are seen as one now a very attractive employer as is visible from the quality of talent that is joining us. We are doing some really good work in the whole area of sustainability and CSR which I will showcase at another time. So, as an organization our objective is keep strengthening yourself do the right thing and frankly the results will follow. You will have ups and downs, we have had an extraordinary situation on input cost but frankly that is also teaching us a lot and we will emerge stronger from it. I think the important thing is not to lose sight, be it your consumer, be it your user and of course your investor. So that is what I would like to say. Thank you all for your time.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

(This document has been edited to improve readability)