18th August, 2023

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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 11th August, 2023.

A recording of the transcript is available on the website of the Company viz. www.pidilite.com.

Kindly take the same on records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

MANISHA RAKESH SHETTY Digitally signed by MANISHA RAKESH SHETTY Date: 2023.08.18 14:23:45 +05'30'

Manisha Shetty
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“Pidilite Industries Limited Q1 FY24 Earnings Conference Call”

August 11, 2023

MANAGEMENT: **MR. BHARAT PURI – MANAGING DIRECTOR**
MR. SUDHANSHU VATS – DEPUTY MANAGING DIRECTOR
MR. SANDEEP BATRA – EXECUTIVE DIRECTOR (FINANCE) & CFO
MR. SUNIL BURDE – SENIOR VICE PRESIDENT (FINANCE & ACCOUNTS)

MODERATOR: **MR. ARUN BAID – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY24 Earnings Conference Call for Pidilite Industries Limited hosted by ICICI Securities.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arun Baid from ICICI Securities. Over to you, sir.

Arun Baid: Good evening ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Q1 FY24 Post-Results Con-Call of Pidilite Industries.

From the Management side, we have Mr. Bharat Puri – MD; Mr. Sudhanshu Vats – Deputy MD; Mr. Sandeep Batra – Executive Director (Finance) and CFO; and Mr. Sunil Burde – Senior Vice President (Finance & Accounts).

Now I hand over the call to Mr. Batra for opening remarks, post which the floor will be open for Q&A. Over to you, Mr. Batra.

Sandeep Batra: A very good afternoon to everybody on the call. I have great pleasure in taking you through the highlights of the first quarter's performance where the board approved the financial results yesterday. Standalone revenue for the quarter at Rs. 2,952 crores grew by 6.2% over the previous year despite a very high base. Just to remind you that last year in the first quarter, we had reported a revenue growth of 62.5%. The growth in this quarter was led by a very strong underlying volume growth of 8%. Underlying volume growth, just to clarify, refers to volume growth which includes the impact of changes in the product mix. All the pricing adjustments are deleted from this calculation. The domestic Consumer & Bazaar business segment's growth was broad based across categories and geographies, with underlying volume growth of 12%. Both urban and rural markets grew in double digits, with the rural market continuing to outpace urban, which signals a gradual recovery in the rural economy. However, exports of our Consumer & Bazaar products declined due to challenging demand conditions in the overseas markets.

Coming to the consolidated results:

The consolidated revenue at Rs. 3,264 crores was 5.6% higher than last year, driven by strong volume growth, particularly, in the domestic Consumer & Bazaar segment. The B2B segment registered a single digit revenue decline, largely due to lower exports and lower demand from export-oriented industries.

Material costs continued to soften with VAM consumption in the current quarter at around $1,150 a ton compared to 2x in the same period last year. Last year was $2,250. And this resulted in gross margin which expanded both sequentially as well as year on year; 812 basis points year on year and 260 basis points sequentially. Part of these gains were reinvested in the form of higher A&SP spends in the current quarter, A&SP was about 3.6% of sales versus 2.1% in the same period last year and other Growth-related initiatives. Consequently, our EBITDA margins went back in the 20%+ zone and at 22.7% were 521 bps above the same period last year and 430 bps higher than the 4th quarter. Domestic subsidiaries continue to deliver robust sales growth driven by the Consumer & Bazaar businesses and EBITDA margins improved in all businesses in the domestic subsidiaries.

Sales of our international subsidiaries, excluding the Pidilite USA business, were largely in line with the same period last year, largely because of uncertain economic conditions, currency devaluation challenges in some countries, and local inflation pressures. EBITDA in absolute terms was also flat versus last year. The working capital situation remained very healthy and in absolute terms was lower than what we reported in March '23, resulting in a very healthy cash position.

As a company, we continue to invest behind building capacity for Growth and a future-ready supply chain with the aim of upgrading our manufacturing facilities and commensurate market demand. In the current calendar year, we have commissioned 7 plants: two for Roff, two for our construction chemicals business, and one each for each of our domestic joint ventures, i.e., Grupo Puma, Tenax and Litokol. With growth largely to be volume led in the near term, a good monsoon, increased construction activity and stable input prices enable us to look at the future with increased optimism. We remain committed to driving profitable volume growth through investment in our brands with enhanced customer engagements and continue to build a resilient and agile supply chain.

That is all as far as opening remarks from my side are concerned. I leave the floor open for Q&A.

Moderator: We will now begin the question & answer session. The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Sir, I just wanted to first check on the VAM price update. If you could give us a sense on where VAM prices were for the quarter, I think I missed that in the opening comments.

Sandeep Batra: VAM prices in the first quarter, what we consumed VAM was at $1,150 a ton versus $2,250 a ton in the same period last year.

Avi Mehta: And, sir, what is the current pricing right now?

Sandeep Batra: Current prices are anywhere between $850 to $900.

Avi Mehta: Sir, just wanted to also understand, building up from the last quarter conference call, we have clearly achieved the margin expectation from March, which we saw 20%. We are now at 21.5% roughly or so. Do you see there is an upside risk to that guidance on EBITDA margin of 2024?

Maybe it should be 22 to 24? Or if you could give us some sense on how should we look at margins as we go forward. And if you could also give us an update on what happened to the reversal of consumer downgrades that you were discussing the last time, the product downgrades.

Bharat Puri: Avi, on the first question, really, as far as the margin range is concerned, given the volatility that we keep seeing in raw materials, we are more comfortable with a 20% to 24% range and that is where we will keep it. Now, based on where the situation is, it may go up and down in one quarter versus the other, but we are comfortable with that range. We believe beyond that range, it actually then impedes our volume growth and opens the backdoor to a lot of regional and other competitors, and therefore, we are comfortable with this range.

I did not understand the question on product downgrades. If you can just elaborate.

Avi Mehta: If I recollect from the last time, you had indicated that there was a sense on when the high inflation period reverses, we can see some impact on the mix as we go forward. That is what I wanted to understand. If that has panned out in terms of the mix, as in lower-price products or lower-margin products have done better or is there anything of that sort that we have?

Bharat Puri: Not in our business. In fact, in our business, that is not the case. As far as we are concerned, the product mix is actually pretty much in line, which is why, if you notice, we have switched to reporting underlying volume growth rather than total volume growth because total volume growth, in a sense, misstates because weighty products that cost very little, like for example putties and so on, then actually increase your volume growth, which is not the right indicator of business. Therefore, we are at underlying volume growth which for the Consumer & Bazaar business is about 12%.

Avi Mehta: That is clear then. What I was trying to understand is that when the inflation was high, I thought the mix was impacted and that would have reversed. Maybe that impact did not pan out and my understanding was inaccurate.

Moderator: The next question is from the line of Kesharwani Karan Hariom from Godrej. Please go ahead.

Kesharwani K. Hariom: Sir, your material price has been declined by approximately 7% year-on-year basis. Is it solely due to a decrease in material price or any production efficiency?

Bharat Puri: It is always a mix of both. And we obviously track this over a longer period of time; it is a mix of both. In this quarter, it is largely material cost because a lot of the material efficiencies when material costs were going high, we actually squeezed. But it will always be a mix of the two. In this quarter, it would largely be material cost.

Moderator: The next question is from the line of Ashish Kanodia from Citi. Please go ahead.

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Ashish Kanodia: Sir, on the B2B side as well as on the export front, what is the sense you are getting? If the demand environment continues to remain tepid, especially on the B2B side, it has been like 3 quarters where we have seen a YoY decline. So, just wanted to get some sense in terms of when you speak to your customer on the B2B side and also on the export side, what is the sense you are getting on the overall demand environment?

Bharat Puri: Let me split this up, Ashish, into 2 different elements. One is B2B where there is direct exports to the developed world which is largely the US and Europe; could be pigments or it could be to customers of ours who are exporting to the developed world. This could be leather, this could be textiles, this could be wooden furniture, so on and so forth. Here, the indicators we are getting is that the US will probably come out of this quicker. There is a little more optimism around the US whereas Europe may take a little longer. Fortunately, a large part of the exports is to a mix of the two but with the US, a little more. I would wait a quarter before we declare and see as to how the situation is but it does appear to be getting a little better, at least the first indicators are there. As far as the neighboring countries are concerned, which is exports of our finished goods, what we are finding is countries like Nepal, for example, are suffering tremendous foreign exchange shortages. Actually, the issue is not that of demand in Nepal. It is an issue of not there being enough foreign exchange. Bangladesh was more a combination of a lack of foreign exchange and the fact that both the Eids this time came in the same quarter and therefore a large number of holidays. I would say I would watch this for another 3 months. But it does appear it will be better in the second and third quarters than it was in the first.

Ashish Kanodia: And secondly, on your comment in terms of reinvesting some of the RM benefits into driving Growth. Apart from the ad-spends, if you can just highlight what other initiatives you are taking to drive that profitable volume growth, that would be very helpful.

Bharat Puri: We are really looking at this across 4 fronts, Ashish. The front one is expansion in sales and distribution. Just to give you a perspective, in the last 12 months, we have added 17,000 new villages which we are now accessing directly. We believe from a home improvement point of view; we would have the deepest distribution by a large distance. Just to give you a perspective, we now have over 8,000 Pidilite Ki Duniyas, the PKDs as we call them. All of these are in villages between 5,000 and 10,000. We have obviously expanded. Therefore, the whole sales & distribution piece is one area of investment, along with requisite like demand generation activities that take place. The second is the whole area of innovation across each of our divisions, whether it is Fevicol, whether it is Fixit, whether it is the consumer products division. Each of these has now started launching a set of innovations in each of their markets. And therefore, our contribution from innovation, we would hope, will actually go up substantially over the next 12 months because, as I have repeatedly said, going forward, volume growth will be the key, and therefore, we must do everything vis-a-vis there. In the enablers, we have also made tremendous progress on the whole digital piece, not only through digital ecommerce, etc., which we have talked about earlier, which has now become a regular part of our business, but to just give you an idea, for example, we have an app called Pidilite Genie, and we believe we are only one of 2 companies who are getting more than 25% of our sales via an app where there is no salesman or distributor involved. This is obviously again reaching our people, who therefore do not even have access to our sales force, can order and get material over a 24-hour period. Like this, we have got other digital initiatives on. We are also looking at some initiatives in the areas of AI. And the 4th is the supply chain. Sandeep referred to it. But if I look at the bigger picture, really what we are doing is we are making a resilient, flexible, on-demand supply chain. We now have 70 manufacturing facilities in and across India. We will probably add 3 to 4 more every year as we go forward, which is what we have got plans for, so that we are not only equipped for future growth, we are also incredibly flexible and can therefore service the needs at very short notice, very quickly. These are all the other areas of investment besides, obviously, investing in your brands.

Ashish Kanodia: And last bit from my side is, any pricing intervention which you might have taken given how the VAM prices have panned out? And secondly, what is the price difference between your product versus the peer product?

Bharat Puri: Our price premium tends to be depending on the product in the whole wood adhesives area of between 10% to 15%. That is the premium that remains. If it goes above that, for example, even in this quarter, we would have actually reduced the effective price to the customer, given the VAM price decreases. On a consistent basis, our premium remains between 10% to 15%. We have tested it over a large period of time. We believe that is what is justifiable and what the customer is happy to pay. Anything above that, we actually give back to the consumer because, otherwise, we believe it impedes our volume growth.

Ashish Kanodia: A related question on this. Maybe on portfolio level, because I understand across categories and across product points, maybe the effective price reduction will vary, but maybe at an overall portfolio level, what kind of a reduction we might have seen this quarter?

Bharat Puri: Very difficult to say, my friend, because our portfolio is so wide and large, it is best to take it at a vertical level. Otherwise, it is very difficult to translate this at the company level.

Moderator: The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: I was curious to hear your thoughts, Mr. Puri, on the overall B2C demand environment. I just heard your comments on B2B, but just trying to gauge, are you getting more positive, excited about the underlying growth trends that you are noticing in your business?

Bharat Puri: Yes, I would say from a demand perspective, what we are seeing is really the whole construction sector does seem to be seeing an upturn. If you look at organized real estate or you look at individual housing, there is a certain amount of buoyancy which we are seeing in the market. We have earlier also spoken about the fact that consumers have reappraised their relationship with the home and are willing to invest more in their home. This is something which is an ongoing trend that we are seeing. The good thing we have seen now over the last 6 months is that for us, at least in our sector, we are seeing rural demand slowly coming back. It is still not the buoyant twice urban demand that we used to see, but slow and steady. For example, in this quarter, our rural growth rates were 1.5x urban and that is really encouraging. I would say, while the monsoon has been good though it hasn't been well distributed, barring these disruptions we are having because of flooding in certain areas, we are actually quite optimistic about the next 6 months simply because we do not see demand conditions domestically changing dramatically. There is a long festive season and most importantly, from our point of view, we also see input prices are fairly stable.

Latika Chopra: I heard your comments on pricing. Are you done with your pricing interventions? Because it seems your current price of VAM is still lower than what your price was there in Q1. Do you anticipate you will still take some tactical calls on pricing or you think you are largely done?

Bharat Puri: Absolutely, yes, we will still take some tactical calls depending on the VAM price. We are always sensitive to that. But we believe now given the last 2 weeks the way crude, etc., is going, we think this is pretty much the bottom of crude and therefore VAM will slowly go back to its traditional around $1,000 a ton over the next 6 months.

Latika Chopra: I also was trying to just understand there is a lot of push on rural expansion. I was just wondering if you could give us some more color on what kind of products are getting better reach in these areas. What kind of price packs, price points, what is allowing you to penetrate rural markets more? And another question I had was on your margin mix. As you go deeper into these smaller towns or rural areas, does it affect or influence your margins in any significant manner?

Bharat Puri: The good thing for us, actually, is that our rural mix, outside the fact that obviously there are smaller packs and there are more basic products – you will not sell the premium products except maybe in Kerala or Punjab or Gujarat – in the rest of the places, it tends to be what I would call the starting products in the range. But it is still the same Fevicol, the same Fixit, the basic range of waterproofing starting from the construction. Fevikwik anyway has very deep penetration and is pretty much there across all villages, above 5,000. It is our full basic range and we keep adding to this range. For example, we have expanded substantially with Araldite. We are now expanding with tile adhesive. On a consistent basis, based on the kind of town, we obviously have lots of rural marketing and penetration models – we classify markets into various substrates, and we believe there is an ideal product mix for every substrate and we keep working towards reaching that ideal product mix, and therefore, in a sense, realizing the potential of that substrate. That is what we are doing on a consistent basis. As far as discounts are concerned, frankly, they are pretty much the same as urban. Actually, discounts here tend to be lower, but freight and logistics costs tend to be higher.

Latika Chopra: And can I check, you have a very wide portfolio, and you have always split your portfolio and there is a growth in Pioneer categories which were about one-third revenue salience. Just trying to understand what parts of these categories or which segments of these are actually tracking your expectations, something that surprised you positively, something that you think probably there is more work to do? Some flavor on tile adhesives, stone solutions, premium wood finishes, some of the niche segments that you are tapping into.

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Bharat Puri: I would say largely our model has worked 8 out of 10 times on a consistent basis. It takes a little bit of time. Whether it is, for example, premium wood finishes, you know that we report ICA Pidilite results separately, you would see that ICA Pidilite itself is now a very strong unit in its own self. And mind you, their minimum price point starts at Rs. 750 a liter. It is really premium, and we would submit the best quality wood finishes, not just in India but in the world. Whether it is that, whether it is tile adhesives, or whether it is the joinery segment, our model has been holding well. Core has tended to grow 1.5x GDP. Growth has tended to be, for example, waterproofing for us continues to be a strong growth driver. I am sure somebody will ask the question about the competition. Competition from paint companies has been there now for 10 years, but we are continuing to grow healthily in waterproofing, and therefore, it remains a growth driver for us. We keep adding newer stuff. For example, we have added tile grouts, we have added stone solutions, we have now added exterior renders. On a consistent basis, Latika, every year, we will add 1 or 2 new categories and slowly and steadily establish them.

Latika Chopra: I remember the last earnings call was full of this, but I just thought I will just check if there is any meaningful update on this interior decor paints expansion. I know your comments from the last time, but anything to call out or update on this time.

Bharat Puri: It is very early days. All of you know, Pidilite as a company; we are not the big bang we will put up X plants and make a lot of song & dance. We will do things slowly and systematically. When we have something to report, we will come back to you.

Moderator: The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My question was, again, on the demand environment. I think you mentioned about the strong trend in the construction industry. On your adhesive segment which has direct consumer products like Fevikwik also and woodworking products, are you also seeing a buoyant demand environment there and also in the rural markets, which indicates that even that segment, even though it is not very directly construction linked, are you positive on that in terms of how you are seeing the demand?

Bharat Puri: Yes, we are seeing demand, definitely also showing a little bit of an uptick as far as, for example, wood adhesives is concerned. My invitation to you, Arnab, would be also does follow, though not fully construction because two-thirds of the demand tends to be renovation, but when there is new construction, you are going to then furnish it. And when you are going to furnish it, you are going to put furniture. And when you are going to put furniture, you are going to use Fevicol. So, we are seeing that as a lag. And at an overall level, yes, while there may be certain categories that are growing faster simply because we are at the Growth stage of the category, be it tile adhesives or waterproofing, but even the Core categories like say, Fevicol, we are continuing to see healthy demand.

Arnab Mitra: And my related question was when you are doing this rural expansion, what we have seen in FMCG typically is that your fastest moving packs anyways reach through indirect means where the demand is, but in your case, does that hold true and therefore are you getting the incremental sales on more of the non-Fevicol products or do you think there is a big gap even in the Fevicol reach in terms of either unorganized share or actually the product not being available?

Bharat Puri: The difference between traditional FMCG and us is that in our case, like, say in my old world when I was in the chocolate and toffee's world or in Sudhanshu's old world when he was doing detergent, you do not have to teach a person how to eat a chocolate or a toffee or to use a detergent. In our business, most of our products actually require a certain amount of user training, and in this case, at times the user may be the end user himself. What we have done, actually, which is giving us good dividends are, we operate with 2 sales forces in what we call emerging India which is a mix of rural and semi-urban India where we have 1 sales force that keeps training users and consumers in the use of the product and that, in our view, is a greater multiplier of sale rather than just pure availability. What benefits from pure availability is actually things like Fevikwik which are simple to use. The rest of them we find that there is a certain amount of education which we will have to do to create the category.

Arnab Mitra: And my last question was on, any change or acceleration in the Capex that you foresee in FY '24-25 given the faster growth and your initiative?

Bharat Puri: We have been repeatedly saying this. In fact, even during COVID, we were busy investing in Capex on a consistent basis. We will remain at between 3.5% to 4.5% of sales on a consistent basis as far as Capex is concerned.

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

Ritesh Shah: Sir, I just wanted some incremental flavor when we say we have underlying volume growth of, say 8%. Can you break it up basically when we look at it from a category standpoint, say Growth, Pioneer, Emerging? And secondly, again, taking a leaf out of Latika's question, how do we look to benchmark ourselves? What will make you happy? What will make you sad? I understand you do give a number of GDP multiplier. But again, if you could put some numbers over there, that would be great. Or should one look at our volume growth versus paints or any other subsector in the building material space that you look at?

Bharat Puri: Paints is, on a consistent basis, Ritesh, actually reporting total volume growth. If on a comparative basis we report total volume growth, our actual total volume growth will be 19%. But in our view, that is not the right way to look at it because that is just actually inflating what are cheaper products which are in a sense a little more commoditized, be it putties or powders and so on. We believe underlying volume growth actually captures mix and also captures, therefore, the pricing element. Now, if you look at, for example, the Consumer & Bazaar business in the first quarter, we have grown volumes by about 12%. As per the RBI, our overall economic growth is anywhere between 6% to 6.5%. As long as we are between 1.5x to 2x GDP at a gross level, we are alright. And when I look at my categories, frankly, the good thing is it is broad based. My Core categories are growing at 1x to 1.5x GDP. My Growth categories are growing at 2x to 3x GDP. And a lot of the Pioneer categories are getting initial traction. At an overall level, that is the indicator we use. Over a period of time what we have also seen is that our Core to Growth & Pioneer is consistently going up. By the end of this year, it appears it will be 60:40. And that really for us, therefore, gives us a greater flywheel for growth. That is how we look at it. Those are the benchmarks we follow. We obviously study all of the other companies, but please remember that vis-a-vis a consumer products business which is different and we have obviously a B2B business that is different. So, we will look at it as a composite. But at an overall level, I would be very happy as long as we are between 1x to 2x GDP on a volume basis.

Ritesh Shah: Sir, I will just continue with the question. I will just flip the argument a little bit around. In the current context wherein the raw material prices have gone down, you did indicate that we have taken some price reductions. When you have to take a call on market share versus profitability, you have already given margin guidance. Is that something which is more sacrosanct than market share? How could one understand that? And if you could split it between C&B and B2B, it would be great.

Bharat Puri: We are clear that market share/volume growth is our prime indicator. You would notice that in the time when we were suffering from really high raw material prices when VAM went up to $2,500 a ton, we felt it was a temporary phenomenon and fortunately we were proven right. We actually took our margins down to 17% from our traditional 20% to 24%. Similarly, therefore, we are clear that volume/market share is primary. We, however, do not like to play in the commodity end of the market. We are a branded business, and therefore, we make sure we command the premium. But we are also clear that you can get a premium higher than normal premium for 1 or 2 quarters, but then you will open your back doors for lots more people to be sitting in your garden.

Ritesh Shah: And last question is on paints. Sir, in the last quarter, you had indicated that we had ventured into AP and Telangana states. Sir, any incremental update over here, the sort of feedback that we have? You had also indicated that we will optimize our distribution reach. If we could provide some color over here, it would be great.

Bharat Puri: Ritesh, right now, it is too early to say. Remember, all sales systems in the first 3 months will declare success very early. To our minds, I think it is best that we come back to you 3 months later. And when we decide to expand into other states, that will be a great indicator that we have met our action standards in these states.

Ritesh Shah: Sir, just the last question. You have elaborated a lot on the rural reach, but you also indicated that the freight and logistic costs are higher over here. Then, how should one look at the incremental margins and incremental ROCEs for the incremental sales in rural India what we are aspiring for?

Bharat Puri: Actually, at an overall level, there is no difference in profitability and therefore ROCE between our rural and urban businesses. Urban businesses tend to be higher on schemes and discounts because of the competitive nature of the markets. In rural and semi-urban, competitive intensity is far lesser. It is about demand creation and reaching the products there consistently, therefore servicing the market. At an overall level, actually it does not make a great difference to us in terms of the mix of sales.

Moderator: The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir, my first question is on the B2B business. But what is the volume growth on the B2B business, the UVG?

Bharat Puri: B2B UVG is 3%. Simply remember, where we are suffering is exports to developed markets and exports by some of our customers of products which are export oriented. They may be leather, resins, textiles or wooden artifacts and furniture, these are the ones that are tending to suffer. The other place that is suffering is the neighboring markets like Nepal and Bangladesh where the issue is actually more of foreign exchange rather than that of demand.

Percy Panthaki: Sir, in India, the B2B growth would be how much?

Bharat Puri: The India B2B growth is healthy. The India B2B growth is not an issue. In fact, because of the government spending in infrastructure and the overall organized construction going high, actually, B2B in India is doing pretty well.

Percy Panthaki: Secondly, just wanted to get your sense on margins. And obviously in the medium term, you have given a floor and a ceiling for margin. But in the near term, would you say that the current quarter margin Q1 is sort of the peak because while VAM has fallen further, you will take price cuts, and on the other hand, crude has gone up. So, would it be fair to say that the EBITDA margin in Q1 is the peak margin for you for the next few quarters?

Bharat Puri: I would not say that. I would just stay with 20% to 24% because crude will still have a 2-quarters impact. As Sandeep told you, our consumption of VAM this quarter was at $1,100+ a ton. The current buying is at $900. In 1 or 2 quarters, we may even go higher than here. But as I said, stay to 20% to 24% and keep focusing on the profitable volume growth.

Percy Panthaki: Lastly, an accounting question. Just wanted to understand your other expenses line has grown more than 20% YoY, which is much higher than the overall sales growth. Any reason for that?

Sandeep Batra: I think the main cost that sits in other expenses is advertising and sales promotion, which if you look at it in terms of percentage terms, last year, it was 2.1%. Now, it is 3.6%. That itself has gone more than 50% and that is the biggest cost that sits in other expenses.

Percy Panthaki: And that is the main reason why the overall other expenses percentage to sales has gone up?

Sandeep Batra: Yes, largely.

Percy Panthaki: And is this just a phasing issue or is the ad-spend likely to remain at the higher side because you have a benefit in the gross margin?

Bharat Puri: In our belief, as we said, we will keep playing this, obviously over a longer period of time, but we will see greater focus on brand building. So, it will remain at a higher level. What's the exact level? You will see in the next 3 quarters. But it will not be going back to the same levels as it was last year because last year was a challenging year from a margin perspective.

Moderator: The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Private Limited. Please go ahead.

Amnish Aggarwal: There are a couple of questions from my side. The first question is regarding the new or innovative products. We have got 2-3 buckets of products and the newer products which have been, say growing at much faster rates. Now what is the salience of such products? Where are we in terms of the total contribution? And what is the outlook on that?

Bharat Puri: That is a difficult question, Amnish, because each of the new products is in a different lifecycle/stage. I presume your question is more towards categories rather than products because each product is different. But for example, some products from Pioneer moved to Growth. If you take something like tile adhesives, 4 years ago, we were a very small player in tile adhesives. Today, we believe we are one of the top 2 players in India in tile adhesives. Now, that is obviously moved from Pioneer to Growth. Things like marble and stone, things like grout are something that now slowly in the next 1 year will move from Growth to Pioneer. The joinery business where we are now the leader moved to a Growth business about 2 years back and is therefore one of our Growth businesses. So, it is different for different businesses, but on a consistent basis, as I said, we keep looking at our own internal indicators and seeing that on a consistent basis are we creating categories? Five-six years ago, our ICA Pidilite business was a small sub Rs. 100 crore business. It is now close to Rs. 400 crores. Clearly you will see that a lot of these businesses are achieving or overachieving the benchmarks we have set for them.

Amnish Aggarwal: And sir, how much would be the contribution of these businesses to our sales now?

Bharat Puri: As I said, by the end of this year, we expect Core to Growth & Pioneer to be 60:40.

Amnish Aggarwal: Sir, the second question is that we have seen a lot of disruptions from the floods and you can say unseasonal rains, particularly in the month of July. Any impact it will have, particularly on the Q2 numbers in terms of demand, stocks, any disruption we faced in terms of any plants or warehouses, etc.?

Bharat Puri: We definitely faced disruptions, Amnish, in the month of July simply because we have about 7 plants in Himachal, close to Chandigarh. With that massive rain that took place there, there was a certain amount of closure. The consolidating warehouse for these 7 plants is in Ambala which is close to Chandigarh, again. We have had some disruptions for between 10 and 15 days. But our way of looking at it is this happens every year in different locations. It is part of the play in operating in India, you will have this somewhere or the other. Hopefully, now in August-September, we do not have further disruptions. It definitely impacted our July sales, but it will hopefully even out over a period of time. Remember, the good thing in high rainfall areas is, it also gives you a great demand for waterproofing.

Amnish Aggarwal: Absolutely. And sir, looking at the VAM scenario and the fact that you are open to, you can say, taking tactical price cuts going forward also, should we then presume that the realization, say in the standalone which today maybe say roughly around a couple of percentage points negative, that number can go higher? Negative realization?

Bharat Puri: It could, yes, definitely. As far as VAM prices are concerned, if they continue to be at a low level and we feel the need to take some tactical price cuts, we will definitely do that.

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

Avi Mehta: I just had 2 follow-ups. One was on competitive intensity. Has there been any increase from regional competition because of the price of VAM?

Bharat Puri: I would say not significantly, but yes, our categories anyway there is always 1 or 2 new competitors and the old traditional competitors; that continues. We have seen a greater, obviously, intensity of discounting, as we said, because people now have greater lee way which is why, as I said, we have taken the price cuts, but we have not seen many new players or earlier players getting revived strongly. They have always been there and they are still playing in the marketplace.

Avi Mehta: And sir, just to kind of understand from a thought process perspective, the way you see this is if demand needs it, we will take a price cut. Otherwise, it is going to be the need from competition so that we ensure that we are not significantly premium from peers. Is that the way I should look at your price cut or how you look at pricing?

Bharat Puri: Our belief is that our products command a certain premium. Therefore, if others reduce prices, we will make sure that our premium does not go over so that it, in a sense, shuts us out. We will make sure that that premium remains at the same level.

Avi Mehta: So, it is going to be more like in case you face that competition, that is when we should kind of look at price cuts as of now, not otherwise?

Bharat Puri: That is true. Yes.

Avi Mehta: And sir, the second is just an understanding question. I am not clear yet on how the current reporting is different from the volume plus mix that you used to give earlier, because the numbers have changed. So, I am not sure what has changed or what has driven that change.

Sudhanshu Vats: The philosophy of underlying volume growth which you now see is, what we are now reporting is how our mix and volume have grown over a period of time. What happens is if you take your price, it is in some ways growth in volume and mix at constant price. That is what we are reporting and therefore that is the difference and we will stay consistent with this. 1) What it helps us to do is, as Bharat has always been saying, that we are about profitable volume growth. Therefore, it is about making sure that the mix of the volume which is growing also is consistent. 2) Underlying volume growth also allows you to look at different volumes within the same bucket. So, in some ways, you can aggregate apples plus oranges. Therefore, whether it is tonnes, it is kilo liters, it is units and all that, it all gets subsumed because you are looking at growth, net of price in your volume and mix. That is what it does. And in some ways, underlying volume growth is actually growth in turnover but at constant price while you call it underlying volume growth. That is how it is.

Avi Mehta: What I was trying to get to is I thought volume plus mix the earlier way we used to give, was also kind of capturing the mix impact and essentially doing the comparison. As I was saying earlier that we kind of take putty, take a lower share, and kind of take that mix impact in that sense. I thought that was coming in the last time, but maybe I will take it offline. I am still not very clear on what exactly changed.

Sudhanshu Vats: We will pick it up offline in order to explain to you what has changed.

Moderator: The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: I had 3 questions and all three on waterproofing, as Mr. Puri had preempted earlier. First is a very basic question, sir. We call out that Consumer & Bazaar is 80% and B2B is about 20% of our business. But if I have to just look at it, what is waterproofing as a percentage of our business? That was my first question. Second question is, recently, Asian Paints called out that they are the largest player in the retail segment with respect to waterproofing. What is our positioning there? And the third question was, Mr. Puri, you have always said that the biggest competition in waterproofing is non-consumption. And you have alluded that 6 out of 10 households do not use waterproofing products. How has that number changed and how is it different in urban India and rural India?

Bharat Puri: Let me start with the first. As far as overall waterproofing is concerned, there is a B2B element and there is a B2C. I would say, and do not hold me to the number, if I combine the two, it would be anywhere between 15% and 18% of our sales. That's the overall waterproofing portfolio. As far as the overall growth in waterproofing and Asian Paints calling out leadership in waterproofing, frankly, what is happening is most of the paint companies have now reclassified a lot of their what were traditional paint products as waterproofing products. For example, an exterior emulsion which was used for exterior beautification earlier now is claimed to be exterior beautification and waterproofing. Some of the primers have been converted to internal primers for waterproofing. Every paint company has a different definition of waterproofing. Traditional waterproofing, as we have seen it, was normally, a) used in new construction and b) used in renovation. Largely what paint companies are even now selling is everything is about renovation, very little about new construction. Having said that, Sheela, as far as we are concerned, when we look at our growth rates, we look at where we are going. We are clear that on a consistent basis, we are making substantial progress. As far as the consumer is concerned – and we have

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just done this study, for example, of the saliency of brands – 9 out of 10 consumers name Dr. Fixit as the first brand of waterproofing when they are asked to name a brand which they would like to use in waterproofing. We believe we have the brand; we have the range now. This confusion, this overlap between paints and waterproofing will always continue and it depends on what people are counting. As far as the difference in penetration is concerned in waterproofing, I'll tackle this in 3 ways. In organized construction, which is organized real estate, organized commercial real estate, office buildings, etc., we are now finding that between 7 out of 10 buildings are using some form of waterproofing in the organized real estate space. In individual housing in urban India, it is between 4 and 5 out of 10. Individual housing in rural India is between 1 and 2 out of 10. And a large part of rural India tends to just do simple concrete mixing on the roof and presume that is waterproofing. So, we've got a very long way to go. The best indicator I can give you is world-over if you look at the ratio of waterproofing to paint, it is 1:3 or 1:4 at best. In India, it is 1:8 or 1:10. So, you can see the kind of runway that waterproofing has for a growth perspective.

Sheela Rathi: Just to be clear, you said, I know it is not exact numbers, but it is 15% to 20% of our overall portfolio.

Bharat Puri: Yes, that is true.

Moderator: The next question is from the line of Rahul from Empitex. Please go ahead.

Rahul: Sir, you mentioned you have used AI in your business. Can you just elaborate a little bit about how you have done that?

Bharat Puri: We are still at the early stages. We are still working through use cases, some of which are incidentally confidential. Give us a little more time so that we are ready to talk about it, because otherwise, it will be music to my competitors to know how we are using it.

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

Jay Doshi: First question is just a quick follow up on the earlier question asked by Avi. Sir, if you were to use the same reporting for volume and mix that you used earlier, what would be your volume growth for C&B business – standalone Consumer & Bazaar this quarter versus the 12% that you reported?

Bharat Puri: They have just done a rough calculation. There would be a marginal 0.5% to 1% difference, but we will work the exact number and come to you. And they are also doing that for the last year. If we were to look at total volume growth, which is what most other companies are reporting including the paint companies, instead of 12%, we would be at 19% growth.

Jay Doshi: That I am aware of, that I know that paint companies include putty and tile adhesive products. But I was just curious to understand whether your change in reporting optically changes something versus what we reported.

Bharat Puri: It does not change substantially. The question that Avi was asking was the right one. We, as a company, have always consistently said volume plus mix. We are now doing volume plus mix at a given price. And that is the difference. And that doesn't, therefore, move the needle the way total volume versus underlying volume does.

Jay Doshi: Second question is, Mr. Puri, you mentioned about you are one of the only 2 companies where your Genie portal or app has 25% sales. Could you elaborate? I was not sure whether it was referring to a particular category.

Bharat Puri: For Pidilite today, 25% of Pidilite sales every month we are now getting out of an app where a dealer, it doesn't matter where he is, presuming he is in Ludhiana or he is in Trichy or he is in a small village in Maharashtra, he can actually on the app, key in his order. In 24 hours, material will reach him via our distribution system. He does not have to call up a salesman. He does not have to call up a distributor. And slowly, over a period of time, we are only one of 2 companies; we believe the other is HUL which is doing the same thing in a substantial fashion. We are today now getting one-fourth of our sales like this. And this really, therefore, sets us up for much deeper and easier distribution in the future.

Jay Doshi: So, this is dealers ordering through the app, not carpenters.

Bharat Puri: Dealers ordering through the app, yes. Carpenters do not order through the app. Carpenters have a separate app where they can ask questions, so on and so forth, etc., but they will be linked to a dealer.

Jay Doshi: And the final question is, from whatever little bit I have gathered about Haisha, I believe currently the price range that it operates at is primarily targeting the economy segment, the economy or ultra economy segment in the decorative paints. Is that understanding correct?

Bharat Puri: No, that understanding is not correct at all. It is, in our view, matching the range of each of the paint companies with a significantly superior product. And actually, therefore, one of the first feedbacks we are getting is that what we are calling an economy product, the market is looking at it as the next category as a premium product. But it is early days. But no, that's not true; we are not in just the economy or the bottom end of the market; we have a full range.

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

Sandeep Batra: From my side, thank you to everybody for your continued interest in Pidilite.

Bharat Puri: It is always a pleasure, thank you. The wonderful thing about the Pidilite analysts, at least, is you'll always ask the questions that set us thinking. Thank you all for your participation, thank you for your support, and have a lovely long weekend and look forward to meeting you post the weekend.

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

(This document has been edited to improve readability)