31st January, 2024

The Secretary	The Secretary
BSE Ltd.	National Stock Exchange of India Ltd.
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14th floor, P. J. Tower,	Bandra-Kurla Complex,
Dalal Street, Fort	Bandra (E),
Mumbai - 400 001	Mumbai - 400 051
Stock Code – 500331	**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 24th January, 2024.

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: 2024.01.31 10:13:28 +05'30'

Manisha Shetty
Company Secretary

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"Pidilite Industries Limited

Q3 FY24 Earnings Conference Call"

January 24, 2024

MANAGEMENT:	**MR. BHARAT PURI – MANAGING DIRECTOR – PIDILITE INDUSTRIES LIMITED** **MR. SUDHANSHU VATS – DEPUTY MANAGING DIRECTOR – PIDILITE INDUSTRIES LIMITED** **MR. SANDEEP BATRA – EXECUTIVE DIRECTOR, FINANCE AND CHIEF FINANCIAL OFFICER – PIDILITE INDUSTRIES LIMITED** **MR. SUNIL BURDE – SENIOR VICE PRESIDENT, FINANCE AND ACCOUNTS – PIDILITE INDUSTRIES LIMITED**
MODERATOR:	**MR. JAY DOSHI – KOTAK SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Pidilite Industries Ltd. (Pidilite) Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Jay Doshi from Kotak Securities. Thank you, and over to you, Mr. Doshi.

Jay Doshi: Thanks, Viren. Good afternoon, everyone. On behalf of Kotak Institutional Equities, I welcome you all to 3Q FY '24 Earnings Conference Call of Pidilite. We have with us Mr. Bharat Puri, Managing Director; Mr. Sudhanshu Vats, Deputy Managing Director; Mr. Sandeep Batra, Executive Director- Finance and Chief Financial Officer; Mr. Sunil Burde, Senior Vice President, Finance and Accounts.

I'll now hand over the call to Mr. Batra for opening remarks. Over to you, sir. Thank you.

Sandeep Batra: Thanks, Jay, and a very warm welcome to all on the call. I will quickly give you a summary of the performance for the third quarter and the results for which were approved by our Board yesterday. Standalone revenue growth was aided by robust Underlying Volume Growth (‘UVG’) of 10.4%. This growth was broad-based across both the Consumer and Bazaar and the B2B business segments, with both segments reporting double-digit Underlying Volume Growth.

Both urban and rural markets grew, with rural and small town markets outpacing the urban growth. Export demand remained strong and delivered double-digit UVG. Part of the moderation in input prices was passed on by way of pricing adjustments and hence, the revenue growth was 4.6%.

Our consolidated revenue for the quarter at INR 3,119 crores was up over the same period last year by 4.4%, led by strong underlying volume growth across categories and geographies. Standalone gross margins continue to expand both sequentially and Y-o-Y. Year-on-year was higher by 1,191 basis points and sequentially by 174 basis points.

VAM consumption in the quarter was around $900 a ton as compared to $2,000 in the same period last year. Investments in brands and consumer facing initiatives continued

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during the current quarter. Consequentially, EBITDA margins improved by 776 basis points over same period last year and by 188 basis points over the previous quarter.

Despite uncertain global economic conditions, inflationary pressures and uncertain political conditions in some of our operating subsidiaries outside India, the subsidiaries collectively, and excluding the Pidilite USA business, reported modest sales growth with EBITDA in absolute terms doubling over same period last year. EBITDA margins improved both sequentially and year-on-year.

Domestic subsidiaries reported robust sales growth with both the Consumer and Bazaar and the B2B subsidiaries registering double-digit growth. We remain focused on building a resilient supply chain and invested behind upgrading and setting up new facilities.

In the current quarter, we commissioned one new plant, which takes the total number of plants commissioned in the current year to 9. We also continue to increase our distribution touch points across India in both urban and rural markets along with effective use of digitization.

Innovation across the Consumer and Bazaar and B2B segments continue to be significant contributors to the overall revenues of the company. As we look ahead, we continue to be optimistic about market demand in the near term, given increased government spending and overall uptick in construction activities, and we remain committed to deliver volume-led profitable growth via investments in our brands, supply chain, digital infrastructure, innovation and customer-facing initiatives.

With that, I conclude my opening remarks and open the floor for questions.

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 Nuvama Institutional Equities.

Abneesh Roy: Congrats on good set of numbers. My first question is on the lending business, which was announced last quarter. You had said that you will be first doing a pilot project and from where the learnings would be there. So my specific questions are in terms of any learnings if you can share. And you had also said that the team will be completely separate versus Pidilite's team. So in terms of team, etcetera, has that been fully set up? And in terms of the INR 100 crores outlay for 2 years, any change to that number?

Bharat Puri: Good evening, Abneesh. On the lending business, the pilot is just being set up over the next, I would say, 15 to 20 days, it will start in one city in Southern India as a pilot. The team has been set up and is completely separate. There are no current Pidilite employees as part of the team. It is an arms-length team. There is obviously no change whatsoever to the commitments of the INR 100 crores over 2 years. In fact, the INR 100 crores over 2 years will also happen only after we have seen the pilot and then decide as to where we want to go.

Abneesh Roy: Right. So Bharat, are you going a bit slow versus initial expectation? Because in 3 months, the pilot project has not started. So are you going a bit slow because the demand scenario is a bit different or there's a feedback from investors that this is slightly risky? Is there any change?

Bharat Puri: No, no, there is no change. Remember that when I say the pilot has not started, we have not started disbursing money. The work has started. For example, remember, you have to do meets across contractors, masons, plumbers, water proofers, dealers, etcetera. All that process has started in the city. So now they worked out their back end, the back end has to be all right, and I think over the next 15 days so there is no change in our intention.

But we are clear. The word NBFC seems to suggest that this is a major venture. This is not a major venture. This in a sense will complete the loop for our whole intermediary ecosystem. And we just want to see whether there's a large enough and profitable opportunity there. That is all that we want to do.

Abneesh Roy: Sure. My second question is on the rural and small town demand. And Bharat sir, you are the expert on FMCG. For the entire FMCG sector, rural demand is a big challenge. For you, last quarter also rural was ahead of urban and this quarter also. So I want to understand, is it coming because of higher feet on street? Or is it because you were under-indexed?

For example, Nestle also is growing faster in rural because they were under-indexed to start with. So in your case also, are you under-indexed and that is why the rural slowdown is not impacting you?

Bharat Puri: So it's a mix of 3 things, Abneesh. The first is absolutely yes. See, categories like ours, even equalized for income are under-indexed in rural areas and small towns, largely because of a lack of consumer education, a lack of user education, and at times a lack of full range availability.

Whereas if I wear my old FMCG hat, FMCG or large part of distribution, expansion is already being done. A large part of the growth therefore comes from increase in consumption or premiumization. And that's where the FMCG sector is currently constrained. As far as we are concerned, A) we are under-indexed, and B) having said that, this is not something over 3, 6 or 9 months. Our CAGR for rural over a 3-year period is actually 1.5x urban.

So when we had set up this division called Emerging India, where we aggregate all Pidilite divisions and go as one company, we had seen this opportunity. We have invested substantially in feet on the street, in the increase of range, in the increase in distribution touch points and obviously, therefore, the amount of below-the-line activity in terms of demand generation.

All of that and a simple example I can give you is, Abneesh, and you know Pidilite better than most, 3 years ago, we used to talk about 2,000, 2,500 Pidilite ki Duniya in rural areas, we know in the villages between 5,000 and 10,000. We now have 12,000 Pidilite ki Duniya. So this is a consistent investment. And if I look shop-by-shop, etcetera, it may not be viable for the amount of effort we are putting in. But these are our fixed deposits for the future, and a lot of them are beginning to pay off already.

So like this, I see the expansion of Araldite, for example, into rural and semi urban. I see the expansion of Roff, our tiling adhesive into these areas. All of these are contributing for us to actually make rural and semi urban a strong driver of growth. And frankly, that will continue for us for some time.

Abneesh Roy: Sure. My last quick question is on the 10% volume growth, a very good number. So 2 specific questions there. One is, your gross margins are at 11 quarter high. And in FMCG, we have seen that whenever sharp gross margin improvement is happening, there is a local player issue also. So if you could talk about local players, are they taking some momentary market share in some of the market?

And second, sir, is in terms of the discretionary demand. So when I see Fevicol that is used in almost every comparable discretionary item, there is a big slowdown. So if you see apparel, footwear, furniture, everywhere, there is a slowdown. You must have been seeing some of the numbers, initial numbers and more numbers will come in terms of results. So that part of the demand, how is it shaping up in terms of apparel, footwear and furniture, the white-glue demand?

Bharat Puri: See, answering the second part, we are finding and maybe this is a function of the increased activity around construction and housing, the completion, the consumers' attitude towards decor and their ability to spend a certain amount of premiumization. Frankly, we are not finding consumer discretionary demand to be dull. It can always be better in some geographies, so on and so forth.

But at an overall level, we are finding demand to be decent. It is not booming, but it is still decent. And therefore, we are not finding any of this as an issue. As far as local and regional is concerned, one of the reasons why we keep our margin cap, is you can already see that in this quarter itself, we've taken price reductions, which are fairly substantial.

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We are clear what is the price premium that our product can demand. And for the sake of 1, 2 or 3 quarters of extra margin, we are not going to imperil our future growth. So therefore, we will keep monitoring that. Local players are back in the last 1 year or so post COVID. But fortunately, we are not seeing a major impact because, we are alive to it, and you can see from our numbers that we are on the front foot. We are not like in a sense, harvesting and then suffering.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar: Congratulations for a great set of numbers. So my first question is regarding an update on the paints business. If you could throw some light as to how we are progressing on that, how many touchpoints, etcetera? And secondly, any comments from your side about the upcoming competition in paints or the competition that we have seen in the waterproofing side of our business?

Bharat Puri: Good to hear from you, Sonali. As far as our paints business is concerned, as we have consistently maintained, this is an initiative only in small town and rural areas. This we started with the states of Andhra Pradesh and Odisha. We have added Tamil Nadu and Karnataka to these states. It is going as per our plan. But remember this that we are not in for a big bang approach. We are not looking to enter the ring and fight amongst the gorillas.

We believe we have an opportunity at the bottom end of the market simply because of our distribution being extremely deep and the demand from our/ dealers. It's too early for us to declare success or failure for that matter. Every pilot in the first 3, 4 months is always successful. So Sonali, I would wait another 6 months before telling you where we are. But it is proceeding as per our plan, but our plan is not a very ambitious plan, please remember.

Sonali Salgaonkar: Got it, sir. Sir, secondly, on the VAM prices, Batra sir told us about the VAM prices right now. But any disruption that you are witnessing, or you expect because of the ongoing Red Sea issue either in terms of supply chain or for your international subsidiaries?

Bharat Puri: That is a great question. See, fortunately, for us, all of our VAM, none of it comes via the Red Sea currently. However, that doesn't mean VAM cannot be impacted because when it's impacted for somebody else, you will have issues.

These days, Sonali, you live in these uncertain geopolitical era where suddenly geopolitics is a strong influence on your business. We will keep a close watch. As of now, we are seeing no impact. Our VAM all comes fortunately from the East and even the ones that comes from Saudi comes via the Persian Gulf and not via the Red Sea.

Sonali Salgaonkar: Got it, sir. Sir, and lastly, any guidance you would like to share in terms of either volumes or margins for FY '25?

Bharat Puri: See, as we have always consistently said, our objective as an organization is double-digit underlying volume growth. And all of you tend to compare us with paints. Please remember, we measure underlying volume growth and not tonnage volume growth because our tonnage volume growth will be obviously much higher. This is underlying volume growth.

Our objective is we are in the range of double-digit underlying volume growth and our margin is at the 20% to 24% level. And hopefully, our proportion of core to growth and pioneer continues to change, we will be on a healthy growth trajectory, and that's our objective.

Moderator: Thank you. The next question is from the line of Jay Doshi from Kotak Securities.

Jay Doshi: Congratulations on good set of numbers. My first question is a bookkeeping question. Domestic subsidiary profitability is significantly lower in this quarter versus what we saw in the first half. So could you sort of elaborate on it? And was there a one-off? And how should we expect it to trend going forward?

Bharat Puri: See, what I would do, Jay, is I would actually divide my domestic subsidiaries into running domestic subsidiaries and pioneer domestic subsidiaries. The running domestic subsidiaries viz. ICA Pidilite or Nina Percept, these are having normal business. YTD, they are on healthy growth and profitable trajectory.

In the pioneers, if you remember, both last time and the time before, we spoke about our new venture on exterior renders. This is a new venture in collaboration with the Spanish company called Grupo Puma. This is just in the process of setting up. The factory has just been set up. It is as per plan, we will, in the first 12 to 18 months, make a loss before it ramps up.

Therefore, if you just look at domestic subsidiaries, through that envelope, you will see a reduced performance. But if you remove Grupo Puma, which is an absolutely new venture, the factory, in fact, is just starting commercial production, then it looks a little warped. But otherwise, as far as we are concerned, this has no plan.

Jay Doshi: Understood. So I see absolute number, I believe there is a deviation or a drop of about INR 20 crores on a quarterly EBITDA. So is that entirely due to losses that you are incurring in this new venture that you are scaling up?

Sandeep Batra: The delta is not INR 20 crores. I think the loss in Grupo Puma is about INR 4 crores in the quarter. And I think in ICA Pidilite, while we continue to grow profits on a YTD basis, in this quarter, our profit was lower than same period last year by about INR 5-6 crores because of a much higher advertising and sales promotion spend that was planned to be spent in third quarter. So that was the only drop. It was not INR 20 crores, it was, I think, some INR 10 crores lower.

Jay Doshi: I am actually looking at the quarterly run rate for first half and quarterly EBITDA of third quarter and I saw the difference of INR 20 crores. Maybe I will recheck.

Bharat Puri: No, because of Diwali quarter and seasonality and ICA Pidilite being a wood finished paints business, there is obviously a much higher ATL and BTL spend in this quarter, which in a sense tends to warp this quarter results but on a YTD basis, it's perfectly healthy.

Jay Doshi: Understood. My next question is, you talked about your aspiration of delivering double-digit UVG. Now this quarter, you delivered that number, and it was broad-based across C&B as well as B2B businesses. And even your commentary on rural demand and in general seems to be a lot more comforting than what you hear from most other companies.

So given that backdrop, should we expect this as a more sustainable volume growth for the next few quarters based on the visibility you have at this point of time? Can anything go wrong is my question.

Bharat Puri: See, Jay, having been in this business long enough, I can tell you, these days it is best to fly the plane visually and look quarter-to-quarter. Does quarter 4 look all right? Again, if there are no Black Swan events, it looks all right. Now we have a massive general election coming up. Unfortunately, the general election, not from a sentiment or so on, just from a logistics point of view, tends to always warp sales in the quarter where there is elections because there's massive government mobilization of transport, people and so on and so forth.

Generally, elections tend to be a time when sales get muted. But hopefully, it makes up over time. If you ask me, are we confident on the trajectory of the organization, the home improvement sector, the India consumption story, the answer to all 3 is yes. Barring any bumps along the way, which frankly, for an emerging economy are par for the course. There will be bumps, but I think that on a secular basis, we are quite confident of the direction we are taking.

Today, our proportion of core to growth and pioneer is slowly pretty much become 55-45. And therefore, we have a better growth engine. We are moving ahead. A lot of our newer categories are successful and therefore, which is why this proportion is changing.

We have our clear direction. Fortunately, as of now, input prices are stable. This will enable us to keep investing back in the market. You will appreciate that this year in the first 9 months, we pretty much almost close to doubled our investment in advertising and sales promotion because, again, for us, profitable underlying volume growth, if we are getting that, then you are on the right course.

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

Latika Chopra: Mr. Puri, it was interesting to hear a comment that the core to pioneer and growth share is now 55-45. If I remember correctly, in the prior call, you were hoping to close FY '24 at 60-40. So would love to get some more flavor on what are the categories in growth and pioneer, say, Araldite, your tile adhesive, floor coatings, wood finishes. If you can give some flavor on what is the growth trajectory that they are clocking? Are they growing 15% to 20%? Are they growing 20% plus? And what is the confidence you have for sustaining these kind of growth rates?

And my second question was between distribution reach expansion and new product contribution, which of these has been a bigger volume growth contributor for you in the recent quarters? And how do you think this is going to play out in coming years?

Bharat Puri: Great question, Latika. Good to hear from you. See, on your first question, on the proportion of growth and pioneer to core, this goes plus/minus 5% every quarter. Our objective for the year was 60-40. The way it's tracking, we will be anywhere between 55-60 to 45-40, which is a pretty happy state to be in.

What is driving that? Obviously, it is the newer categories. When I look at, for example, Araldite, when I look at our whole tile adhesives business, I mean, 4 years ago, I had 2 anemic tile adhesive plants. We now have 10. So clearly, that has been a good driver of growth. We look at our wood finishes business, that's a good driver of growth. The joinery business is a good driver.

So there is a whole set of initiatives that we have. Each of these, again, Latika, is growing at differential rates. And we have always maintained, when we plan for these, we want 2 to 4x GDP growth depending on the amount of infrastructure we have created, depending on the demand, the situation and how much penetration there is, etcetera.

So there is no one answer to what rate they are growing. But obviously, they are all growing at the rates of 2 to 3x GDP at least. That is the first thing. And just remind me on your second question?

Latika Chopra: I was just checking on your between distribution reach expansion and new product contribution.

Bharat Puri: See, I would say, as of now, remember because innovation impacts both urban as well as rural and small town markets. In an absolute sense, innovation is always a bigger driver of growth than distribution touch points.

A lot of times, what happens is, like, say, for example, some of our growth in rural is coming because of the extension of say, Araldite, the extension of our sealants business, the extension of Roff. Now for the rural markets, this is innovation because they are new to the rural markets though we have had these products for long. So we don't count them in our innovation machine, so as to say.

But at an overall level, I would say both are strong drivers of growth. Innovation because it cuts across both, tends to be a little stronger because in urban areas, really our task is not so much increasing distribution touch points. We still keep increasing distribution touch points because cities are all expanding in the peripheries. But it is more also about getting more out of our existing outlets, both for a range as well as a volume perspective.

Latika Chopra: All right and if I may squeeze in one more check, this is on margins. Do you see any possibility of any further price reductions in any of your segments? And also, we talked a lot about Emerging India. Could you share what's the revenue cadence for this broadly for your standalone business now?

Bharat Puri: See, first, just as far as price decreases are concerned, again, we have always maintained that we believe that our price premium that we command over competition varies from product to product, but we have clear formulas within. The moment we find that price premium is going above those, we tend to reduce price because it suggests that the raw material prices have come down because the local guys have become more competitive.

So if raw material prices get a little softer, they remain soft, we might see some price decreases. But the way raw materials are now looking, Latika, I suspect we are somewhere near the bottom, this could still be famous last word because you never know what happens vis-à-vis China. These days, there are too many geopolitical things involved. So I would say as long as our price premium doesn't go beyond the levels that we have set for it, we will not decrease prices. If it does, we will. That's the basic thing going forward. The second thing, as you said, the proportion of urban to rural plus semi urban is 70-30.

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

Arnab Mitra: My first question was on, if I look at the growth categories, and if I take waterproofing out of that because that's quite a large category, the other brands which have ramped up quite a lot in the last recent 2 years and are growing fast. Is there any impact on margins as we have become bigger? I mean are they dilutive, accretive to your business at a gross level or an EBITDA level?

Bharat Puri: Good to hear from you, Arnab. That's a great question. See, what we do normally is at a gross margin level, we tend to keep our margins at very similar levels because we are clear that, that's what impacts our intrinsic profitability. So plus/minus 3% to 4%. Gross margins across our categories will be healthy.

In a lot of, obviously, the growth categories, we would invest a lot more in, for example, investment behind the brand, in route-to- market initiatives, in below-the-line initiatives as well as people. So therefore, on an EBITDA basis, we are clear that the growth categories will have a lesser EBITDA, but similar gross margin, then over a period of time, things should taper off and then come to our averages.

Arnab Mitra: Got it. That's very helpful. And my last question was on waterproofing. So you have, of course, clubbed it all as part of growth. I mean the perception is that it's slightly bigger as a category now. It's obviously quite competitive. Are you seeing something like that towards like GDP growth in waterproofing continue?

I mean, while your overall growth may grow at 2 to 4x, waterproofing may be a little lower than that? What are the trends that you are seeing in that market in terms of end demand, given that Paints demand seems to be slightly soft in the recent few quarters?

Bharat Puri: See, retail demand, which the paint industry has also reported, has been soft. But having said that, institutional demand for waterproofing has jumped because of the infrastructure investments, etcetera. Waterproofing is still, the penetration-led growth is still fairly high because even now, our belief is real waterproofing penetration is less than 1 in 2, which is less than 50%.

And therefore, the task for a lot of us is to first expand that market and make sure that, that market is expanding rather than only look for share within the 50. Having said that, in our view, it is still growing, from 4x GDP it has become 2x GDP because of the stress in consumer discretionary segments. But it is still a fast-growing segment.

The only thing is the issue that is coming is, Arnab, these days, the definition of waterproofing, everybody is using, is a very fast and loose definition of waterproofing.

The paint companies tend to now put all exterior paints into waterproofing and call them waterproofing. A lot of their primers, they now say it's a waterproof primer. What was being sold earlier as a primer is now sold as a waterproof product. So if you add all of that, it's 3 to 4x, but the real waterproofing, I would suspect is twice GDP.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Thank you. Congratulations to your team for a great set of results. First question is on the overall growth rate in terms of volume. You mentioned that the growth rate is more broad based. But I mean, if we look at, say, 2 quarters back versus right now, when have you seen the highest rate of change, I mean, in terms of growth rate? Basically incrementally, what has improved versus, say, 2 years backs or 2 quarters back or 6 quarters back, just wanted to understand that?

Bharat Puri: See, good question, Keyur. Basically, what has improved is 2 things. One is clearly the growth categories continue momentum. And therefore, the momentum on those is leading to greater growth.

The second thing is rural and semi-urban markets, as they've been cycled, we're finding momentum there also and they're growing faster than they were growing. Two quarters back, we were talking of 11% and 12% growth. We are now talking of 1.5x. So therefore, you can see that both these set of markets are tending to contribute to higher growth.

Keyur Pandya: So geographies rather than, I mean, category-specific improvement you are seeing?

Bharat Puri: Both geographies and in categories, the growth categories. For example, each of the growth categories, some of them have good momentum, be it, for example, Araldite, be it our tile adhesives, obviously, waterproofing. So a lot of these have momentum anyway, sealants is a new business, which has got a lot of momentum.

Keyur Pandya: Understood. Extension of this question is, I mean, adhesives, assuming that it's a late cycle product to the real estate construction, has that seen pickup from what it used to be say a year back or whatever benchmark you want to take or versus the normalized growth rate? And what kind of growth rate we are witnessing or we are yet to see that improvement?

Bharat Puri: See, if I look at my CAGR, Keyur, even for the adhesives business, we are close to double digits. So I mean the business has been robust throughout. Post COVID, what has happened is consumers have reinvested a lot in their homes and that has obviously benefited all our businesses, especially adhesives. And in fact, if this current real estate and housing boom continues, then we obviously see adhesives will step up because adhesives as you are rightly saying comes at the last stage of the home completion.

Keyur Pandya: So basically, you are saying that current growth in itself is decent growth, but probably this pickup is yet to be seen. I mean the pickup will be over and above the current growth rate?

Bharat Puri: Yes, hopefully so.

Keyur Pandya: Understood. And just last question on the capex or capacity addition. We have seen a lot of capacity addition for various products. So this is more just to cater to the demand? Or is there a change in strategy, that too many small plants at various locations and is this for all the new products or existing products, any color on where and how we have done the capex? I mean after a long time, a discussion is happening on capex from Pidilite and we have seen that also that absolute capex has also gone up.

Bharat Puri: See, as far as capex is concerned, again, it is actually for both, even our existing products. So for example, your point, we are now building much larger factories for existing products. We have just built 2 massive factories in Vizag. Now our biggest adhesives factory is, therefore, the 1 in Vizag, which is the most recent factory. The biggest coatings factory will also be in Vizag, which has just got commissioned, which is again a new factory.

In addition to that, the new categories, obviously, whether it is tile adhesives, we are obviously seeing expansion because these require distributed manufacturing. So it's a mix of both. Our policy remains, we, as an organization, are, A) very strong believers in the India growth story. B) We also believe we are in the right sector at the right time.

The home improvement is a sector that correlates very well to GDP growth. And therefore, as GDP growth steps up, we will see demand step up. So the moment we touch 70% to 75% capacity utilization, we start planning new capacity. And the new capacity, obviously, now is much larger plants than earlier in locations, hopefully, which also give us a competitive advantage.

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

Ritesh Shah: Sir, first, would it be possible for you to quantify the volume growth on a 4-year CAGR basis?

Bharat Puri: The 4-year CAGR, as far as volume growth is concerned, will be close to again, if I see, exactly 12% to 12.5%.

Ritesh Shah: That's helpful. Sir, second, again, the question is on demand, volume growth was really good. But when we look at ceramics, wood panel category, cement, all these categories, we haven't seen volume growth. It is like single digit. So again, just trying to understand how to better understand the growth.

I appreciate you have answered this in different ways before. But is there any better way to look at it probably from a perspective of end user, be it carpenter, painter, plumber, from a C&B standpoint or from a B2B, be it joineries or paints or textiles, is there a better way to appreciate the delivery on numbers what the company is doing?

Bharat Puri: Let me try, Ritesh. Take for example, we just spoke of tiles. As of now, pretty much 1 out of any 4 tiles in a household uses any form of tile adhesives. The balance simply use cement, right? Therefore, whether the tile industry grows frankly by single digits or double digits, our task is to, if I can just take this and increase this by 10% to 15%, I have got a growth engine for the next 5 years.

What we have done, and this is what you know that Pidilite does well, again, for tile adhesives, we have created two sales forces. We are working with the tile layer, who's called kadiya where we're educating them on the use of the product and then educating them in the use of a more premium product.

So therefore, what I would submit is while some of these categories maybe growing slower, our penetration is growing faster, whether it is tile adhesives, now whether it is, for example, the use of sophisticated adhesives as far as joineries are concerned. Earlier, hot melts were used only by the top end joineries. Now it has become something that all of them are using.

So there's a fair amount of, I would say, user and consumer education along with specification work with architects and interior decorators, who are now therefore pushing superior products and pushing superior specifications because they want things to last.

So I think things like this are also helping our growth a lot more. I mean the fact that we have a sales force that work/s only with users in educating and creating demand, in tough times, that really comes into good use.

Ritesh Shah: Right. Sir, if I just had to play a devil's advocate, right, the underlying variables, what you indicated, is just a continuous affair that the company indulges in. Then if that is the case, then we should not be witnessing the kind of deviation on volume growth that we look at it on a year-on-year basis.

Bharat Puri: See, there are so many factors that are in play. And I can't simplistically say that therefore, everything is equal. But when I look, the very fact, Ritesh, over a 4-year period if we are growing our volumes double digit, then there is obviously something right we are doing because none of these categories are showing 4 years of double-digit CAGR growth.

Ritesh Shah: Sure. Perfect. Sir, my second question basically is on product launches. If you could highlight what product launches we had, say, in the last 6 months, 9 months? And are there any white spaces that we look to fill over the next year or 2?

Bharat Puri: See, at Pidilite, innovation is always a strong driver of growth. So for all of our divisions, we would have launched at least 1 to 2 major products and 1 to 2, what we would call, not major, but minor products. So like, for example, in the Fevicol division, we have launched a new variant, a very premium variant of Fevicol called Fevicol Hi-per Star, which is doing extremely well, which is a high gram, very high-quality adhesive, which saves a lot of time for the contractor and for the consumer.

We have launched a whole range of sealants. 2 years back, this was a white space largely for us. We have now launched a whole range of sealants. This is completely new. In the waterproofing business, we have a whole range of roof sealing products and a whole range of exterior products at different price points, which are again contributing very well to growth.

In our higher waterproofing business, we have polyurethane based and polyurea based products for ceiling roofs, etcetera, which are again a whole new range. In our art material business, for example, you would have seen the relaunch of Glue Drops, you would have work around Fevicreate, WD-40 has some work going on with some packaging innovations. So you will see at Pidilite, our objective is 1/3 of my growth must come out of innovations launched in the last 24 months. And that is what we keep pushing towards, and that's one of our, again, strong drivers of growth.

Ritesh Shah: Sure. This is helpful. Sir, just lastly, you did indicate on the paint side, basically, would it be possible for you to give some numbers, anything around the aspiration side that we would like to have on the revenue and EBITDA?

Bharat Puri: As I said, listen, I will leave paint. There are enough gorillas trying to fight it out. Let them worry about how many plants. We are quietly just completing our range. It is not something substantial that impacts our numbers. So I mean, this is not a big initiative from Pidilite where we put up 3 plants or 4 or 5 plants as others would have put up. We are going slowly, steadily in small town India where we believe we have a competitive advantage. We are testing that out. If that works, we will come back to you.

Ritesh Shah: But sir, would it be fair to assume that this business on a separate basis, it will be positive at the EBITDA level?

Bharat Puri: Over a period of time, it has to be positive. In the initial stages, we may choose to invest. But yes, I mean, at Pidilite, we haven't launched anything which doesn't have the right gross margins.

Ritesh Shah: Sure. And sir, lastly, on waterproofing, would it be possible for you to quantify the market sizing and where we stand over there?

Bharat Puri: Very, very difficult, my friend. Because remember, waterproofing has 4 distinct markets. In new construction, you have institutional, the real estate, the large real estate players and then individual housing. And then in repair, you have large institutions, factories, very difficult to say. I would say in each of the segments, the competition is different. We are probably the only company now that still plays across all of the segments. But very difficult because, I mean, each of these, there are widely differing estimates depending on the company.

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

Percy Panthaki: My question is on the volume value gap. You have done a 10% volume, which is a UVG number, and 4.5% sales. So that difference of 5.5 percentage points, would I be right in assuming that, that is just the pure pricing on a Y-o-Y basis and there is no mix included in this 5.5%?

And if so, can you give some flavor on the different segments and the rough quantum of price decline in them? I mean there would not be a uniform price cut across the board, right? So it would be helpful if you can sort of give some flavor on the quantum of pricing in different product categories.

Bharat Puri: See, to answer to the first part of your question, again, good to hear from you, Percy, the first part of your question, yes. Because underlying volume growth anyway takes into account the variable or mix. The difference is largely price.

As far as price is concerned, B2B tends to take price much quicker because we are much more used to it. So the B2B price increases will be higher than the B2C. Having said that, again, we have such a vast range, I mean, suffice to say that the woodworking adhesive, which is the Fevicol part, would be the largest price decrease in the Consumer and Bazaar business. Waterproofing would be lesser though there is a reduction because a lot of the coatings, also raw materials have come down. In the consumer products businesses, there's very little reduction because there's very little change in raw materials. There's some, but not substantial.

So it's different for different places. In export markets, again, the reduction will be a little more than in the domestic market simply because of the lack of duties, etcetera. At an overall level, I would say that B2B has a higher price cut, B2C has a lower price cut. And between these, woodworking adhesives would be the maximum. It was also across the other places.

Percy Panthaki: Understood. And also, if you could give us some flavor on how much of this price cut, which is at a net level when we are looking at your net sales, there would be some amount which is attributable to increased trade promotion schemes, margins, discounts, etcetera, and some amount would be the actual reduction in the end consumer pricing. When I am talking about end consumer, whoever the consumer is, whether it's a carpenter or actually homemaker or whatever it is. So if you can give some idea on this 5.5% split between these 2 aspects?

Bharat Puri: See, again, different in different divisions, but it is a mix of both. In some cases, where we are clear the price reduction is going to stay, we have taken the dealer price itself down. Remember, in our case, the consumer price that is marked on the pack, anyway, our products, because they are so competitive, they tend to sell much below that.

So therefore, as far as the consumer is concerned, when we pass on price decreases, the consumer sees the impact very clearly because of the competitive nature of the product. At an overall level, I won't say it's different for different division but it would be a mix of both actual price decreases and simple in-bill rebates, etcetera, because then we are seeing the raw materials are soft.

Percy Panthaki: Right. And given where the input costs are right now, supposing if we just make a hypothetical assumption that they remain where the input costs are right now, do you see any reason to change your prices? Or whatever you have done till now is enough?

Bharat Puri: Largely seems to be enough unless some other areas where we are investing. But where we seem to be, we have taken the price cuts. So we believe our price premiums are appropriate. So if there are no further reductions in raw materials, I don't see price decreases of any substantial nature.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: Congrats on good set of numbers. So looking at the 3 key factors for margins, demand environment, which is not very buoyant as you called out, our RM scenario, which has some tailwinds to offer, and competitive intensity, which I am presuming it is as intense as always. How would you like to guide on EBITDA margins trajectory from here on?

Bharat Puri: See, we are clear, we have always guided that we always maintain a range. We never give a number. The 20% to 24% we are confident of. Now barring, again, I keep saying that, listen, in this new geopolitics influenced world, you have to keep looking at it quarter-by-quarter. But as I look from where we sit now, I would say the 20% to 24% is a safe assumption.

When raw material prices are benign, as they are now, it would tend towards the higher end. When they become a little more volatile or there is some fluctuation, then they move towards the lower end. And at this stage, what we would keep looking is how to progress further for volume growth.

Tejash Shah: Got it. You spoke about low penetration being the key driver in waterproofing. So from a distribution standpoint, what percentage of addressable dealer network universe must be stocking Dr. Fixit or our products?

Bharat Puri: See, remember, Dr. Fixit is stocked by three different distinct dealer networks. There is the buildings material network, which normally tends to stock products for new construction. Remember, a large part of waterproofing, in India, lesser in world over, it's 70% is new construction, 30% in renovation. In India because our new construction practices are not great, it tends to be the other way around.

So building material stores, those who stock steel, cement, they tend to stock the new construction-related waterproofing products. Paint, hardware, so on tend to stock the repair and renovation linked products because in some cases, they may stock both, as would be the case with building materials.

And then you have specialized chemical waterproofing stores, which stock the higher-end products, which are for institutional, which are for larger housing societies, etcetera, which use more sophisticated products. So there is a different dealer network depending on the consumer that you are catering to. And to further complicate, what tends to happen is that network is different for metros, that network is different for mini metros and obviously very different for rural and semi urban.

Tejash Shah: Yes. And sir, in our channel checks, we are picking up that paint dealer margins and rebates are actually increasing sequentially or not. And there is an overlap for our distribution, some of our products in the paint products. Are you feeling the pressure of crowding out of working capital because there's a rebate that's actually coming with higher inventory promises also? So are you feeling any such pressure on our side of the business?

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Bharat Puri: That's a good question. Remember, all rebates and extra credits are required when your brand is not strong enough or your user-related work is not strong enough or your work with the influencer, which is the architect, interior decorator is not strong enough.

While clearly, in most industries, when margins become healthy as they have become for paints and the paints guys have called out price decreases. In fact, I think the paint industry just 3, 4 days back has taken another price decrease across their products. So paints tend to be far less digesting on increased margins and therefore tend to pass it off as rebates earlier and then price decreases later.

Now obviously, we compete in the same market. We believe, again, we know where our product should be priced, vis-a-vis, the others. We maintain that but we are not finding pressure either on working capital and credit. Because again, remember, even today, the strongest brand in waterproofing is Dr. Fixit. When 9 out of 10 consumers are asked to name India's top waterproofing brand that they would consider, they say Dr. Fixit.

Tejash Shah: Yes. And sir, last one, any incremental update on NBFC plan that we had revealed last quarter?

Bharat Puri: As I was saying in the first question that Abneesh asked, we are just in the process ,the pilot which is just being set up. It will be done in 1 south Indian city. We will learn from that pilot, and then come back and tell you fellows what our plan is over the next 2 years. So it's very, very early days. Just we haven't still got off the blocks in terms of disbursing money.

Moderator: The next question is from the line of Jay Doshi from Kotak Securities.

Jay Doshi: A bookkeeping question. What would be the contribution of top 20 cities to Fevicol woodworking portfolio, woodworking adhesive portfolio?

Bharat Puri: Again, very difficult to say. Remember, Jay, that there is a substantial amount.See, Fevicol, the fascinating thing is 10% of the cost of furniture is Fevicol. But the consumer changes the shop where she buys the product from and changes the plywood and the nails, everything else based on the Fevicol price. So there's a high amount of wholesale.

And Fevicol again, in terms of distribution mix to Fevikwik, because Fevikwik is a 5-rupee product. Pidilite's most distributed product all India would be Fevicol. So I mean it's very difficult to say what is the retail sales in the top 20 cities because for us, Tier 2, 3 and 4 also tends to be very strong.

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Jay Doshi: Understood. So the idea of asking this question was we are seeing real estate upside at least in top 20 cities, if not more. And at some point of time, perhaps you started seeing traction in the woodworking portfolio or adhesive segment as well. But perhaps in the next 1 year or 2 years, you will see more traction. So the idea was to just understand what would be that contribution to your overall sales

Bharat Puri: It would be close to at least half the sales. And yes, hopefully, there will be further tractions so on and so forth. Now when you open the newspapers, the first 4 pages are real estate ads. So all this real estate that is being sold will come in for completion in the next 2 to 3 years. So hopefully, we will see that. But as we see it today, I mean, we have seen over the last 2 years, even as I said, post COVID, adhesives demand has been fairly healthy.

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

Ritesh Shah: Just a quick follow-up, sir. On a 4-year volume CAGR, you gave a number of 12% to 12.5%. Just wanted to check whether this is organic or basically to dissect how much would be organic, how much would be inorganic?

Bharat Puri: See, the only large inorganic in this would be Araldite. Because Araldite is now part of a base number which may not have been, but again, Araldite is not so substantial that it is going to move the number very greatly.

Ritesh Shah: Okay. So not much of difference.

Moderator: I now hand the conference over to management for closing comments. Over to you, sir.

Sandeep Batra: Thank you very much for your interest and continued interest in Pidilite and wishing all the participants a very good evening and a good day. Thank you.

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

(This document has been edited to improve readability)