

# FMCG firms will see double-digit growth if GDP grows at 7.5%, says Pidilite's Bharat Puri

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**B**harat Puri, managing director, Pidilite Industries Ltd, says input prices and weak currency is a cause for concern. Edited excerpts:

**What is the mood like? How are companies like yours being received? We have seen many fast-moving consumer goods (FMCG) companies, in the last two-three quarters, and their commentary has become stronger. Is it just the base effect, or are you seeing some sort of actual revival in demand? What is happening on the ground?**

It is difficult for me to say what the mood is, but the situation from the ground is, we are cautiously optimistic. Yes. There is a base effect. In the last two quarters, we have got over the impact of demonetization and the goods and services tax (GST) rollout. So, while demand is good now, frankly, the next two-three quarters is going to tell you what the new normal is. Given the good monsoon, given all the macros that we are seeing, given the mood in the field, I would say we are cautiously optimistic.

**How is cautiously optimistic numerically different from optimistic?**

I suspect by a few percentage points, but the signs are good. If you look at our results, for example, we are delivering steady double-digit volume growth. If two quarters later, we are still delivering steady double-digit volume growth, then you are fully optimistic. So let us wait another two-three



Pidilite Industries managing director Bharat Puri.

quarters, then the new normal will be very clear.

**What is it that is giving rise to the caution that you may have. Is it the currency that you are most worried about, is it crude prices, or is it something else?**

One, input prices and currency are definitely a concern, because the currency has double impact on input prices. Inflation is always the single biggest damper for growth in any emerging market, and that is true for ours as well. Two, normally FMCG tends to be at 1-1.5 times gross

domestic product (GDP) growth. Therefore, as we look forward, let us see if that continues when GDP growth comes in at the 7-7.5% mark. In that case, most FMCGs looking at double-digit growth will be a reality.

**Are you not very confident that the underlying growth will sustain?**

If GDP sustains at 7-8% then you are at the double-digit growth mark, but if you look at

FMCGs over the last two quarters, look at Pidilite, we had growth of 23% in our consumer sector last quarter. So, that kind of growth will sustain, but given that there is a steady undertone we will not know what the new normal is. But we are confident of steady growth. We have seen the FMCG industry at twice the GDP, at 1.5 times the GDP, and then it became at the GDP level. It seems to be going back to 1.5 times. Hopefully, if things are good then it could go back to 2 times the GDP.

**Let's talk about some internals of your business. Let's start with the waterproofing segment. Given the monsoon season, given the flood situation in Kerala, how do you expect the business to pan out for this segment?**

As far as waterproofing is concerned, the external envi-

**'The risk is input prices and currency headwinds...If India grows, our categories grow much faster and that is why we are cautiously optimistic.'**

ronment, the immediate environment, makes a difference; in waterproofing you are actually competing against non-consumption. Out of 10 homes that are built about three are waterproofed properly. A good monsoon is always welcome, a good monsoon impacts real growth and it impacts the mood as far as their trade in India is concerned, and it seems to be a good monsoon. As far as Kerala is concerned, it will take some time. It's unfortunate what has happened, the scale of the disaster is massive, but having said that, it is also India's one of the most prosperous states.

So hopefully, it will bounce back over a period of time. I think it will probably be six months before things start

coming back to normal in Kerala.

**What are the big risks apart from input prices, which keeps going up and down? Is there any risk in terms of the business or the industry itself?**

I think the risk is input prices, currency headwinds and what I also keep telling my team that let's not ever become complacent. Other than that, we are strong believers in the India story, our categories are well positioned vis-a-vis the India story. If India grows, our categories grow much faster and that is why we are cautiously optimistic.

**What will be the big growth driver?**

The underlying economic growth is something that is a growth driver, but for us given the categories we operate in, we actually segment our portfolio into three basic buckets—core businesses, growth businesses and pioneer businesses. Core business growth comes via driving penetration, via driving sales and distribution, and via premiumization. So we tend to grow at 1-2 times GDP in our core categories. In the growth categories, waterproofing being a growth category. There it is about holistic brand management, it is about consumer and user education, it is about sales and distribution, and there you would look at growing 2-4 times GDP. Then you have the pioneer category, which is a category that is very small and underserved today, but are tomorrow's growth categories. So as a portfolio we tend to make sure that we have a business that spans all three buckets. Currently, two-third of our business comes from growth categories, one-third from growth and pioneer categories.

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