



“Pidilite Industries Q2 FY11 Earnings Conference Call”

October 21, 2010



**MODERATORS: MR. SANDEEP BATRA
MR. SANTANU CHAKRABARTI**



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Moderator: Ladies and gentlemen, good afternoon and welcome to the Pidilite Industries Q2 FY11 earnings conference call hosted by IIFL Capital. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Santanu Chakrabarti from IIFL. Thank you and over to you sir.

Santanu Chakrabarti: Thanks Melissa. It is my pleasure to have with me today Mr. Sandeep Batra, Director Finance Pidilite Industries to discuss the Q2 FY11 results of Pidilite industries and its business strategy and outlook going forward. Without much further ado I would like to hand over the call to Mr. Batra.

Sandeep Batra: Good afternoon everybody and thank you Santanu for taking the initiative to organize the call. Let me give you a few headlines on the results for the second quarter and the first half of the year, which the board considered and approved at its meeting yesterday. Pidilite has reported a net sales growth of 14.8% in the quarter as compared to same quarter last year. If you were to look at the growth of Q2 main segments that is consumer and *bazaar*, and industrial products the growth is 16.5%. Last year in this quarter we had some sale of raw material, which was surplus to our requirements and largely had been purchased for our VAM plant, which we had disposed off last year. Obviously, since there is no such sale of raw material in the current quarter that has depressed the growth by about 1.7% points. On the material side there has been in select commodities significant increases in cost that we have experienced in the current fiscal. While we did take price increases in the first quarter to pass on these cost increases in some of our product categories and largely the industrial businesses, the full cost increase has not been passed on and therefore there has been some margin compression, which is something, which is visible in our segmental result where the PBIT for the industrial product segment has fallen over the same period last year. I just would like to draw your attention to the fact that last year in the second quarter the industrial product segment had recorded one of its highest segmental profit, if one were to look at the result for the last 10 quarters, so to that extent it was a bit of one-off show in the second quarter last year and margins have come off from that level. In addition, last year in the second quarter we were not spending as much as we would have liked to behind our demand generation and brand building initiative. We had stepped up our expenditure in the second half of last year and we have maintained that pace of expenditure and this increase in advertising and sales promotion spend together with the increase in the material cost largely in the industrial product segment has impacted the EBITDA performance and the

EBITDA for the second quarter is about two hundred basis points lower than the same period last year. At performance below the EBITDA level interest cost shows an increase over the same period last year and that is largely on account of the premium that we have paid to repurchase our own non-convertible debentures. We had about Rs.75 Crores of non-convertible debentures, which were due for redemption in December 2011. We had repurchased about Rs.20 Crores in the first quarter and in the second quarter we have repurchased and extinguished the balance Rs.55 Crores that has in turn led to a reduction in the surplus investments in the surplus cash, which was invested in the form of mutual fund and investments in debt fund and the combined set of all these factors has led to a PBT growth of 7% in the quarter. As we had mentioned in the call for the first quarter result our marginal rate of tax has increased because three of our units in Himachal Pradesh having completed their first five-year tax holiday period and now only enjoy 30% of the income being tax exempt so that has led to the tax rate going up from 15% to 22%-23%. This has therefore resulted in a 3% decline in our PAT. These results are of course for the Pidilite industries standalone performance. If you were to look at the first half of the year our topline growth is higher than the second quarter, it stands at about 18%. Part of the reason for the growth to be slightly slower in the second quarter as compared to Q1 has been that in the first quarter we were effecting price increases in most of our consumer and *bazaar* product brands and that could have let to some amount of sale of the second quarter heading advance to the first quarter. It is a typical phenomenon that we have experienced in the trade in India that ahead of the price increase the trade tends to stock up and we believe that is exactly what has happened because if you were to look at the last two years our Q1 and Q2 sales have largely been identical whereas that is not the case in this quarter but we believe that the first half performance by and large represents a trend of the things to come in terms of topline growth. If I were to now comment on the performance of our overseas subsidiaries while in aggregate they continue to not add to the EPS of the company. There are some good performances amongst our subsidiaries. The company in US has done exceedingly well with very impressive topline growth. While the results show a growth of about 6% at a topline, in constant currency terms the growth is higher it is more in double digit because of the rupee having strengthened against the dollar some of the topline numbers have got a bit depressed. In terms of the performance in Thailand again the impressive performance of the first quarter has been maintained, growth has been very impressive and the business has reported cash profit, same goes for the performance in Bangladesh, a activity which we started in December of last year at that unit continues to post a strong result; however both Bangladesh and our operations in Egypt had an impact because of local holidays in these countries in September on account of Ramadan and Eid and we hope that the growth in the subsequent quarters will makeup. The only entity, which continues to perform below our expectations is our operations in Dubai where coupled with the local demand situation being very soft we have not been able to get the kind of growth

that we had targeted; however, we are taking steps there to reduce our losses in the meantime so that by the time when the growth comes back to that geography we are well placed to get back on growth. That is all that I had in terms of giving my commentary on the performance of the company. I will be happy to take any questions now.

Moderator: Thank you. Ladies and Gentlemen we will now begin with the Q & A session. The first question is from the line of Aniruddha Joshi from Anand Rathi, please go ahead.

Aniruddha Joshi: What is the volume and price hike breakups for the quarter and for the six months?

Sandeep Batra: It is difficult to give you a very precise answer because we have such a large portfolio of products but by and large I would say price would be about 3% or so and the balance would be volume for the quarter and for the half year it would be slightly less because our price increases got implemented in the middle of the first quarter or some happened towards the end of the first quarter, so I would say for the quarter it will be about 3 and for the half year may be 4.5%.

Aniruddha Joshi: This price hike is in all the business segments meaning the international business, consumer business, and industrial business, all three or only consumer products in India?

Sandeep Batra: No, the price increases have been taken in all the product segments it is just that in the consumer and *bazaar* segments where the brands play a much major role we have better pricing flexibility as compared to industrial products where also the competitive intensity is higher.

Aniruddha Joshi: So the price hike was relatively higher in consumer and *bazaar* products?

Sandeep Batra: No, price hike I would say would be higher in the industrial products because the raw material cost is a higher percentage of the sales value in industrial products. It is just that we were not able to pass on the entire cost increase in the industrial products.

Aniruddha Joshi: Okay. Sir, regarding this FCCB I guess we have done repurchasing three to four tranches, so what is the FCCB balance left on the balance sheet as of now?

Sandeep Batra: FCCB repurchase we did was last year in April. What I was talking about was the non-convertible debentures that we bought.

Aniruddha Joshi: Okay, so all the non-convertible debentures are bought back now?.

Sandeep Batra: We have two tranches, one which was Rs.75 Crores, which was repayable in December 2011 that has been fully purchased; out of the Rs.75 Crores due in December, 2013 Rs.15 Crores has been repurchased and Rs. 60 Crores is outstanding.

Aniruddha Joshi: Okay. any update on the elastomer project in Dahej?

Sandeep Batra: The elastomer project the trial runs have been going on in the pilot plant that we have set up. We have been able to make some of the grades of the synthetic elastomer very successfully. Some of the grades are still under development and we will do that process sequentially. And in terms of next step we are now much more hopeful of the project and much more certain in terms of technical risk around the project given that we have been able to make successful quantities of the elastomer at the plant. The demand situation of that product has also substantially improved, you know, signs of growth in most of the markets. The price of that product has also significantly firmed up in the global market and we believe that this would be the right time now to actively consider the next phase of this project.

Moderator: Thank you. The next question is from the line of Kaustav Kakati from Batlivala & Karani Securities, please go ahead.

Kaustav Kakati: Sir, I just have one question on your other expenses they were a little higher was this mainly because of your higher A&P expenses or was there anything else also?

Sandeep Batra: See, some of the expenses would have gone up in tandem with sales but the ones which have gone up faster than the topline would be largely advertising and sales promotion and freight, you know, we have witnessed significant hardening of freight rate because of the increase in diesel prices we had to give freight increases of upwards of 10% to the transporter, so that has also put pressure on the bottom line.

Kaustav Kakati: Sir, also your other income was also significantly higher?

Sandeep Batra: See, we had in the end of June about Rs.330 Crores of investments in mutual fund, most of them were in growth schemes, we had to redeem them because we had to pay dividend and we had to buyback the non-convertible debentures and because the investments were in growth schemes you recognize the income only when you redeem that investment. So, because we redeemed about Rs.150 Crores all the accrued income on those funds got reflected in the current quarter results.

Kaustav Kakati: Alright Sir. And you used some of those proceeds for the repurchase of entity?

- Sandeep Batra:** Yes, correct.
- Kaustav Kakati:** Sir, what would be the debt breakup now, now that you have only about Rs.60 Crores of entities remaining?
- Sandeep Batra:** That is about Rs.320 Crores of which about Rs.170 Crores is the foreign currency convertible bond and there is some Rs.60 Crores of non-convertible debentures, we have some Rs.25 Crores of ECBs, some Rs.35 Crores of sales tax deferral loan, and balance would be overdraft with banks.
- Kaustav Kakati:** Alright Sir. On the synthetic elastomer project now that you have sort of run some pilot tests on the product are you looking at any particular time frame for commercial commencement of the project?
- Sandeep Batra:** Yes, you know, once all the risks around the project has been by and large addressed we would like to look at as expeditiously as we can to get the project running, so between 12 to 18 months we should look at how we can get the project up and going.
- Kaustav Kakati:** So, probably mid of FY12 would probably be a right time?
- Sandeep Batra:** Yes, may be end of FY11 and thereafter.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss, please go ahead.
- Abneesh Roy:** Sir, my first question is on the pricing in the industrial products; you said you have taken some price increase but that is not enough. I wanted to understand what kind of a lag is there and when do you think that a major part of the raw material pressure can be passed on the consumers in the industrial products?
- Sandeep Batra:** See the lag in industrial products passing on the cost increase could be about two quarters by the time we fully pass them on because the customers are fairly large organizations and there is higher competitive pressure in that, but I think if you look specifically on the industrial products pricing I think the comparison with last year would not be a very fair comparison because those margins were, I would say. much higher than normal margins.
- Abneesh Roy:** So are these margins also on the lower side or what would be the sustainable margins in the industry?



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Sandeep Batra: I think the kind of margins that we are getting now plus may be couple of, would be I would say the average margin of what we are getting now.

Abneesh Roy: Okay, those are the sustainable margins?

Sandeep Batra: Yes, for the industrial products.

Abneesh Roy: Is it possible to pass on some pricing as in raw material pressure to the consumer part of the business. Because in consumer part you have a very good competitive positioning so do you ever think that may be we can take a higher pricing increase there and then take care of the margins in the industrial products in the interim?

Sandeep Batra: Certainly, I do not think we would like to in that sense, you know, offset one margin with the other both have their own free standing zones of operation, but definitely the pricing power in the consumer and bazaar category is higher than in the industrial product segment and again our pricing philosophy is not tactical in the sense that in a moment if there is a cost increase we would not contemplate a price increase, we would watch and see that if the cost increase is part of a longer term trend, it is not an abnormal one quarter increase then we will take price action so we are looking at the current raw material regime to see which are the categories where the cost increases are more of a permanent nature and definitely we will take corrective pricing action.

Abneesh Roy: Sir, in the international business you said Dubai is the only problematic in terms of sales and profit, so all the other businesses you expect that in the coming quarter should do well on both these fronts, sales and profit?

Sandeep Batra: Yes, they will maintain their improving trend over the last year, I mean Dubai is not the only one, which is actually making losses, I think the operations in Egypt are also at a PAT level in the negative. Egypt is a market where we see tremendous opportunity and we are doing all that it takes to build our business, our brand there, it is a good market for several countries in Africa given the kind of trade cities that exist, so the only business where we anticipate the headwinds to continue to remain in Dubai, the other businesses definitely will maintain their uptrend over last year.

Abneesh Roy: On elastomer you have done the technical risk part, I wanted to understand on your end consumer part have you again gone back to them and said that my product is again back after say six to seven years, so any kind of feedback you have got from them?

Sandeep Batra: No, that process is under way, there are two kinds of products that we make, one is what get used in adhesive and what get used in the other technical applications, so once we make the

second kind of product, the second range; see if the product is technically no different then we don't anticipate any resistance from the end-customer because technically it will be the same product, so we do not anticipate that to be a risk. The biggest risk was whether we would be able to make the technology work, which in the pilot plant we have been successful.

Abneesh Roy:

Is it for the entire portfolio or for some of the products?

Sandeep Batra:

See, the last end of this process where you add more value and make it, you know, more amenable for the higher category of applications or higher category of use there we do not anticipate risk. The risk was in the basis technology, which we have been able to successfully assimilate.

Moderator:

Thank you. The next question is from the line of Prashant Poddar from Invesco, please go ahead.

Prashant Poddar:

I have two questions; one is related to the volume growth. What is kind of domestic volume growth you are seeing and did you see any disruption because of heavy rains and monsoon in northern part of India?

Sandeep Batra:

As I said our overall volume growth would be about 3% lower than the nominal sales growth. It is very difficult to give segment by segment answer on how much is the volume or how much is price but at an average level it will be about 3% lower and in terms of disruption of monsoon definitely, one is inherently some of the activities slowdown during this monsoon period and we did face some amount of demand disruption in north India and other parts of the country because of the heavy monsoon that we have experienced largely in our adhesives and in our construction chemical segment.

Prashant Poddar:

Okay, second question is related to the advertisement expenses, which you mentioned, which have increased, would that continue at similar levels or could we see further acceleration therein?

Sandeep Batra:

There could be some more increase but in terms of as a percentage to sale the kind of investment that we have started from second-half of last year this would be in the same range but the first half of last year was very muted, so that is why if you compare it with the second quarter of last year the increase in expenditure appears to be significant, but in terms of what we have been spending over the last three quarters this would be the trend going forward.

Prashant Poddar:

Percentage of sales would be similar?

- Sandeep Batra:** It would be between 3.5-4%.
- Moderator:** Thank you. The next question is from the line of Rohit Gajare from UTI Portfolio Management Services, please go ahead.
- Rohit Gajare:** Sir, could you give me the breakup of your interest expenses, you have spent 98 Million in this quarter, is it possible for you to breakup into what are the components of 98?
- Sandeep Batra:** All I can tell you is that in that 87 Million for the standalone entity, about 33 Million is one-off, which is the premium that we would have paid for repurchase of our nonconvertible debentures.
- Rohit Gajare:** Okay. The entities are giving a yield of coupon of 10.2% right? So you wanted at a second lower yield, so the premium of that has been taken down in the interest itself?
- Sandeep Batra:** Yes, that is correct.
- Rohit Gajare:** That is 33, now of the outstanding loans you have around 320 Crores, which you mentioned, what will be interest rate applicable on an average for that 320 Crores?
- Sandeep Batra:** FCCB, about 6.75% is the YTM.
- Rohit Gajare:** We are taking YTM in the P&L right?
- Sandeep Batra:** To the extent that it is used for revenue we take it in P&L; we extended it for the synthetic elastomer project, we capitalize it, effective interest rate will be less than 8%. It will be much lower now, we have re-purchased those 10% plus NCD, so it will be more about 7-7.5%, I guess.
- Rohit Gajare:** Between 7-8% is the interest expense, may be we can model for the next half of the year?
- Sandeep Batra:** Correct and in that keep in mind that some amount of our FCCBs are used for the synthetic elastomer project and that interest gets capitalized.
- Rohit Gajare:** So, actually in this quarter and also in six months there has been increase in the capital employed for elastomer, so would that capital employed for elastomer would be, you know, a portion of that could be due to capitalization of interest?

- Sandeep Batra:** Yes, certainly capitalization of interest, some could be because of whatever mark-to-market impact is there on the loans that have been taken plus whatever we would have spent on the project.
- Rohit Gajare:** Sir, you mentioned there was significant raw material pressure for the industrial segment right? However, at the gross margin level it has not come down significantly on a year-on-year basis, so is it right to summarize that the gross margin impact of the industrial products was partially offset by price increases in the *bazaar* products basically, this is how it happened right?
- Sandeep Batra:** It is not right to say that we offset one with the other. I think it is suffice to say that if price increase more than offset the cost increases in consumer and *bazaar* they did not do so in our industrial products.
- Moderator:** Thank you. The next question is from the line of Amit Hiremath from Enam Asset Management, please go ahead.
- Amit Hiremath:** Sir, again getting back on the subsidiaries you mentioned that apart from Dubai all the other subsidiaries are doing well according to the expectations, so based on that can we say that for this particular year Singapore and USA, which had made loss in the previous year would be at a break-even or more in that at PAT level?
- Sandeep Batra:** Singapore is a very small operation; last year's loss was largely because of some goodwill that we wrote down there. I think the US business is doing well; definitely it will be heading towards blank. Singapore is a small operation. The only one, which will be at negative at a PAT level would be Dubai. Egypt largely because of we not been able to scale up our operations there and it could be in Brazil because of amortization, in Brazil we are still preferring to amortize the goodwill rather than test it only for impairment because we would just want to be more careful there rather than writing back the goodwill, we would prefer to be even more conservative.
- Amit Hiremath:** Sure sir. What would be the CapEx for this particular year and next year?
- Sandeep Batra:** If you look at the CapEx for our regular operation again difficult to give a number, but I can give you a range it will be between 50-75 Crores in the current year and synthetic elastomer would again depend on the speed at which we go ahead on the project.
- Amit Hiremath:** Could be approximately?



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- Sandeep Batra:** This year will not be much because this year it will be mostly non-cash and next year it could be if we go full speed ahead on commissioning it then next year it could be 100-150 Crores.
- Amit Hiremath:** Along with the 50-75 Crores of normal CapEx?
- Sandeep Batra:** Yes.
- Amit Hiremath:** And tax would be similar, 23%?
- Sandeep Batra:** Tax rate could go up a bit next year because 3 units have completed their five-year period, one more unit I think will complete in the next year, so it will inch up slightly that is a structural change, right?
- Moderator:** The next question is from the line of Kaustav Kakati from B&K Securities, please go ahead.
- Kaustav Kakati:** Sir, again coming back to the interest cost, as you mentioned there was one-time debentures expense of 33 Million for re-purchase of the entities; basically going forward the interest cost would be much lower from these levels, we could expect somewhere around 50 Crores per quarter of interest cost?
- Sandeep Batra:** Not 50 Crores, 5 Crores per quarter, it would be slightly around that order.
- Moderator:** Thank you. The next question is from the line of Priyanka Malhotra from SMC Wealth Management Services, please go ahead.
- Priyanka Malhotra:** In terms of PBIT margin I just wanted to understand can we take this quarter number as the proxy numbers going forward for the different segments i.e., consumer and *bazaar* and industrial products?
- Sandeep Batra:** I would not really like to comment on what can be taken as the number for the year, just keep in mind that our first half is always bigger than our second half and therefore we get much higher operating leverage in this period than we would in the second half of the year, so to that extent to extrapolate these numbers as representative of second half would not be correct I would rather look at long-term track record of our EBITDA margins on an annual basis and then arrive at a sustainable number for the year.
- Priyanka Malhotra:** Okay, and secondly sir regarding the effective tax rate what could be our peak tax rate and how long this 30% tax holiday would be effective?



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Sandeep Batra: This 30% is for five years, so for the three units that have completed the first five years they have another five years at 30% income being tax exempt and the other units will complete it, I think one or two will complete next year and another one a year thereafter.

Priyanka Malhotra: So, there could be tax rate hike of around 2% every year going forward?

Sandeep Batra: No, it will not be 2%, it is very difficult to give you a number on that unfortunately, but it will not be 2% I think.

Priyanka Malhotra: In terms of the hike sir?

Sandeep Batra: No, I do not think the increase will be of that order maybe it will be a percent here or there about.

Moderator: Thank you. The next question is a followup from the line of Rohit Gajare from UTI Portfolio Management, please go ahead.

Rohit Gajare: Sir, with some of our units coming out of full tax exemption do we have any plans of setting up new units in places where we have special benefits?

Sandeep Batra: Now that opportunity is no longer there; under draft DTC code - I think the Sunset Clause has set in, so there is no further opportunity.

Rohit Gajare: It has been extended by one year....

Sandeep Batra: Yes, but now there are no excise benefits in those unit, and one year is too short a time to setup. In any case it is not only tax, which is the driver for setting up the unit, it does not make sense at a total landed cost basis, so it is not only tax, which will be the driver.

Moderator: Thank you. The next question is from the line of Janakiraman from Franklin Templeton, please go ahead.

Janakiraman: Have you launched any new products in the local market on the consumer segment in the last six months to one year?

Sandeep Batra: It is difficult to actually tell as to what exactly is new product, I mean there have been several new - we have a fairly wide portfolio of products where we believe there are several, which do not yet fulfill the full potential so what we have done is to focus very heavily behind a few specific products, which we believe has lot of potential. To give you an example Fevicol Marine, which is an adhesive, which is to be used for wood working,

where the wood is likely to come into contact with water has been very successful. We advertised very heavily behind it in the media. Similarly M-Seal Super, which is another sealant, an epoxy sealant but something, which is superior to the normal M-seal that we have launched and invested behind in terms of media and on-ground activation, and similarly for Newcoat, which a waterproofing product that again we have invested substantially behind in the media.

Janakiraman: Within your product portfolio the construction chemical is that growing faster than the company average because of the higher growth in construction activities?

Sandeep Batra: Construction chemicals certainly is growing faster than the overall growth rate of the company, but that is not entirely driven by construction activity on the ground, it is driven largely because that area we believe is not very well serviced by products or solutions and it is totally a open market for us to create, our focus is largely on the repair end of the construction chemical not always first-time construction and it is in the repair and renovation area where we believe we have maximum opportunity.

Janakiraman: What proportion of your sales will come from that segment?

Sandeep Batra: From the repair end about two-third, 70% of the sales of construction chemicals would be there.

Janakiraman: Construction chemical as a category how much will it account for in your sales?

Sandeep Batra: Construction chemicals is the category that we report as construction and paint chemicals, it is about 18% of the company's sale of that the dominant part is construction chemicals.

Janakiraman: One clarification on this elastomer project, you are saying that we have completed the trials but the commercial sales will happen only about 12 months down the line is that right?

Sandeep Batra: It is not trial of the main plant, it is just that we have built a pilot plant to essentially test the technology, so we have built basically a downsized version of the main plant, we have to test every aspect of the technology. It is not that the main plant has been built, it is only a pilot plant and now we have to go and build the main plant.

Janakiraman: Okay. Cumulatively how much we would have invested so far in that?

Sandeep Batra: 280 Crores.



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Janakiraman: Coming back to those new products earlier I thought you were mentioning that some of the products from your acquired entities particularly the US company might be launched in India, so will you do that?

Sandeep Batra: We have already started selling the automotive after market range of products, so we have launched it in a few markets, but we not really put in place a fully orchestrated strategy for it, we need to find ways of making it affordable for the market in India, so we are looking at various options how we can reduce the cost of that product and bring it to the market. So we have done, I would say very limited trials of that product and a full rollout will happen.

Janakiraman: Okay. At the gross margin level, since most of your raw materials are linked to crude price, the second quarter does it reflect an underlying crude price of roughly about \$80 or only in the third quarter we will see that kind of a price?

Sandeep Batra: No, it reflects the current raw material pricing regime with the results in the second quarter but you know most of our raw materials at a chemical level may be linked to crude and in terms of pricing they seem to follow their own very different trajectory compared to crude. They have their own demand-supply drivers, which impact pricing in the short-term.

Janakiraman: Okay. Just like M-Seal would you be interested in acquiring any brands in the local market?

Sandeep Batra: Certainly that would be something, which we would actively consider should an opportunity arrive.

Janakiraman: But you are not actively looking out for that?

Sandeep Batra: **We are,** it would be wrong to say we are not looking out but very difficult to give you any specifics.

Janakiraman: Okay. Sometime back there was a news article that you got into the foods business, so what is the update on that, have you tested and then discontinued that or what is the status of that sir?

Sandeep Batra: Currently whatever products we have introduced in the food market we are not aggressively pursuing that line, we are not making those products anymore, so at the moment we are not in the food business.

Moderator: The next question is from the line of Amnish Agarwal from Motilal Oswal Securities Limited, please go ahead.

- Amnish Agarwal:** Sir, firstly you talked about your ad spent in absolute form has doubled during the second quarter of the year, so can you share with us what is the absolute level of ad spent in the second quarter and first half of the year so far?
- Sandeep Batra:** Total spent in advertising and sales promotion would have been about 20 Crores in this quarter.
- Amnish Agarwal:** 20 Crores in Q2 and for the first half?
- Sandeep Batra:** Just multiply it by 2, I think that would be the number.
- Amnish Agarwal:** Is a similar kind of spent is likely to sustain in the coming quarters?
- Sandeep Batra:** Yes.
- Amnish Agarwal:** Okay, secondly we have set up units in Bangladesh and Egypt and post that I think the sales which used to be, the products which used to be exported from here they will get substituted by the production from there, so what could be the impact on the sales in India, the exports from here?
- Sandeep Batra:** The unit that we have set up does not make all the product that were getting exported, it is largely the Fevicol range, which is going to be made there as opposed to exports, so the amount will not be very material.
- Amnish Agarwal:** What are the plans for scaling up the business in those units?
- Sandeep Batra:** There are two plans, one is Bangladesh business is largely for home consumption there, so we are looking at how we can expand our market and more importantly bring in other products that we were not selling in the country using this presence of our manufacturing facility there and in Egypt the plan to scale up is to use that as a market for the other countries in Africa, which have free trade units.
- Amnish Agarwal:** What is your outlook on the profitability particularly on the international business and subsidiaries because we are still incurring a loss?
- Sandeep Batra:** I think we may not see all the overseas, the subsidiaries and aggregates getting back into the black this year but definitely most of the units will get back into the black and as I said, you know, at an EBITDA level we have issues largely in Dubai and in Egypt and that is where I think will be the soft spot, the other will be positive definitely at the EBITDA level in the year.

- Amnish Agarwal:** Okay, but any timeline, which you have for the international business to start contributing positive at the PAT level, any timelines you have or international benchmark?
- Sandeep Batra:** Timeline is specific with country we cannot bundle everything in one cluster but definitely we should see improvement year-on-year and we are hopeful that definitely next year this would be back in the black.
- Amnish Agarwal:** Okay. Sir, finally one last question on the elastomer business where now we have already tested a pilot unit. Now you have also said that the demand outlook is better and the prices have also moved up, and our plant is of 25,000 tonnes capacity?
- Sandeep Batra:** 19,000-20,000 tonnes, not 25,000. First phase will be about 20,000 tonnes.
- Amnish Agarwal:** So, can you guide us what sort of economics will work out in terms of what could be the selling prices of the various grade of elastomer now?
- Sandeep Batra:** We have to discuss in terms of what the outlook will be, you know, pricing fluctuates, it is very difficult to put a number, but definitely the selling price of the product has definitely improved from a low of \$2.8 to a kg it is now at \$4.5-5 a kg and there is an upward bias to that, so the economics looks very attractive now.
- Amnish Agarwal:** Okay, and so we are expecting it to be commercially commissioned in the next 12 to 18 months?
- Sandeep Batra:** Yes, we are on that track.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Anand Rathi Financial Services, please go ahead.
- Shirish Pardeshi:** You have mentioned that your A&P expense is about 20 Crores and for the full year it is in that proportion, just wanted to check this A&P expense is driven because of competition or we are looking at construction chemical as a main driver going forward?
- Sandeep Batra:** No, it is not because of competition it is largely to build demand for the categories we believe have tremendous opportunity, so it is not because of competition.
- Shirish Pardeshi:** My question is that when you are saying that construction chemical business you are looking aggressively and there is lot of opportunity and potential going forward so what exactly we are trying to do, are we trying to tie-up with the players directly at the back-end or we are tying up the supply chain or how do we do it?

- Sandeep Batra:** Let us take a product like Newcoat that is a waterproofing product that we have got, so obviously first you have to make the consumer aware about the product and make him interested in that product, we have to make sure that the product is available in the geographies where you believe opportunity exists and we have to ensure that the people who will apply that product, which is contractor and the mason they are adequately trained because, you know, there is some amount of technicality in applying the product, so on all the ends you would make sure that you do the requisite amount of steps.
- Shirish Pardeshi:** I heard that previously when Janaki was asking the question on the crude-related price increase; what is the outlook, I mean do we have to have enough legroom that we can take further price increases or still the large proportion of the business has already seen one round of price increase and then we will have to probably wait for one more year to take the further price increase?
- Sandeep Batra:** I do not think we have to wait for one year to take a price increase, we have in the past, you know, whenever there has been cost inflation taken steps to protect margin and that certainly we will only that the pricing flexibility in the consumer and *bazaar* is higher and secondly we would like to wait for a longer term trend on cost to emerge rather than reacting on month-to-month prices.
- Moderator:** Thank you. The next question is from the line of Saurabh Pant from SBI Mutual Fund, please go ahead.
- Saurabh Pant:** The growth in the specialty industrial chemical 19% is just a function of the lower base or has MO to that?
- Sandeep Batra:** Partly it is lower base, partly it would be the kind of customer wins that we have had over the last 12 months with whom we are doing business, and so it is a combination of both.
- Saurabh Pant:** Okay. On the inventory build up thing before the quarter any number can you put to that, what could have been the loss in growth rate Y-O-Y for this quarter because of this inventory built-up in the system?
- Sandeep Batra:** If you look at our last two years, the Q1, Q2 have been the same in terms of topline. If you do the math you can understand how much growth could have shifted from sales from Q2 to Q1.
- Moderator:** Thank you. The next question is from the line of Nikhil Kumar from Motilal Oswal Securities Limited, please go ahead.



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- Nikhil Kumar:** Sir just two questions from my end; one on the ad spent part of it, if I were to just breakup the entire ad spent into above the line and below line how would it breakup?
- Sandeep Batra:** It would be larger amount, 65 above the line and 35 would be below the line.
- Nikhil Kumar:** Second question purely on the subsidiary part; if I were to just look at your gross margin profile in the subsidiary businesses, it is more or less in line with your domestic operation. Right? Now the way I look at it is only a matter of scale, if I were to look at it, currently it is about 300 Crores sales per annum so what is the kind of scale you are looking at when at an EBITDA level probably it can make 10%-12% kind of EBITDA margin?
- Sandeep Batra:** You are right, I mean it is largely a question of – I think the basics are right, just have to get the right amount of scale to leverage the investments that we have, so that is a matter of time, you know, these are all small businesses started off from small base, they will take time to scale up.
- Moderator:** Thank you. As we have no further questions I would like to hand the floor back to Mr. Santanu Chakrabarti for closing comments. Please go ahead.
- Santanu Chakrabarti:** Thank you Melissa. I would like to thank all the participants as well as Sandeep for making this call a success. It was a pleasure to listen to the Pidilite story. With that I declare the call close. Thank you.
- Sandeep Batra:** Thank you.
- Moderator:** Thank you Mr. Batra, thank you Mr. Chakrabarti. Ladies and gentlemen on behalf of IIFL Capital that concludes this conference call. Thank you joining us and you may now disconnect your lines.