



16th August, 2022

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Stock Code – 500331

The Secretary
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex,
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Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 11th August, 2022.

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 Shetty
Company Secretary

Encl: as above

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“Pidilite Industries Limited
Q1 FY2023 Earnings Conference Call”

August 11, 2022

ANALYST: MR. ARUN BAID - ICICI SECURITIES LIMITED

**MANAGEMENT: MR. BHARAT PURI - MANAGING DIRECTOR –
PIDILITE INDUSTRIES LIMITED
MR. SUDHANSHU VATS – DEPUTY MANAGING
DIRECTOR - PIDILITE INDUSTRIES LIMITED
MR. SANDEEP BATRA – CHIEF FINANCIAL OFFICER
- PIDILITE INDUSTRIES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q1 FY2023 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Baid from ICICI Securities. Thank you and over to you!

Arun Baid: On behalf of ICICI Securities I welcome you all to the Q1 FY2023 post results concall. From the management side we have Mr. Bharat Puri, Managing Director and Mr. Sudhanshu Vats – Deputy Managing Director and Mr. Sandeep Batra – CFO. Now I hand over the call to Mr. Batra for opening remarks post which the floor will be open for Q&A. Over to you Sir!

Sandeep Batra: Thank you and good afternoon and a warm welcome to all those who have joined the call. I take great pleasure in sharing my opening comments on the first quarter results which were approved by the Board at its meeting yesterday.

First of all delighted to share that on a consolidated basis the company crossed the milestone of Rs.3,000 Crores in revenues for the first time, this represented an over 60% growth over the same period last year, a combination of higher volumes and measured price increases. Consumer and bazaar growth was across all geographies and categories of adhesives, construction chemicals, and DIY portfolio. B2B growth was also strong across all verticals. While input costs remained elevated, sequential EBITDA margins remained constant on account of calibrated pricing, higher volumes, and effective cost management actions.

Now I will share a summary of the financial performance for the quarter ended June 2022. On a consolidated basis net sales were Rs.3,091 Crores a growth of 60.3% over the same period last year. Consumer and bazaar segment grew by 63.9% with B2B segment growing at 49.8%. As mentioned earlier, gross margins remained impacted on account of steep escalation in input costs. Material cost as a percentage to net sales for the quarter, were higher by 736 basis points over same period last year and 181 basis points higher over the immediately preceding quarter. EBITDA for the quarter was Rs.529 Crores, a growth of 52.3% over the same period last year. Profit before tax and exceptional items were at Rs.473 Crores and increased by 63.3% over same period last year.

I will quickly touch upon the standalone financial performance where net sales at Rs.2,778 Crores were higher by 62.5% over the same period last year with sales volume and mix growing by 44.3%. Consumer and bazaar sales were higher by 66.6% with an underlying



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volume and mixed growth of 49.2%. The B2B segment grew by 50.5% with an underlying volume and mixed growth of 28.9%. The prices of our key raw material Vinyl Acetate Monomer (VAM) have continued to increase during the quarter. Q1 consumption rates were \$2,230 per metric ton versus \$1,608 per metric ton in the same period last year. EBITDA before non-operating income for the current quarter is at Rs.487 Crores higher by 50.3% over same period last year. Profit before tax and exceptional items at Rs.443 Crores grew by 58.8% over the same period last year.

I will quickly now touch upon the performance of our subsidiaries starting with the overseas and international subsidiaries, which maintained positive growth momentum and reported high double digit constant currency revenue growth largely due to judicious pricing actions. Subsidiaries in Asia reported higher sales and EBITDA whilst the Africa subsidiaries continued the growth momentum. The subsidiaries in America reported higher sales, but EBITDA was under pressure due to higher input costs. The domestic subsidiaries registered good sales growth; however, the EBITDA margins of the B2B subsidiaries in India remained under pressure due to higher input costs. While the near-term remains challenging, we remain cautiously optimistic on the medium-term given the recent softening of input prices led by lower oil prices, a good monsoon and a continued good demand conditions in the housing and home improvement sector. Our focus continues to be to deliver broad-based profitable volume growth.

Moderator: Thank you very much. We take the first question from the line of Mr. Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Sir I just wanted to understand the comments a bit on the 'near-term challenging situation' because it seems you have indicated that demand is positive clearly from the performance, input costs are also moderating so would love to hear why you have shared a challenging situation for the near-term?

Bharat Puri: Sure, why we are saying the near-term is challenging is because of two reasons. Reason number one is that Q1 of the year is when we have seen the highest input costs, which all of the inputs bought in Q1, a large part of the inputs will be consumed in Q2 and therefore Q2 from the near-term perspective is challenging because from a margin perspective it would remain challenge, the highest raw material cost that we believe we will see will be in this quarter. The second reason is largely given that on a year-on-year basis all building materials have seen substantial inflation, we are seeing some amount of slowdown/moderation of growth in the rural/small towns and until the effects of a good monsoon, money going into the hands of the consumer in rural and semi urban happens, which will probably happen only



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in the second half, the near-term will remain challenging. Thus the comment of the near-term remains challenging. Does that answer your question?

Avi Mehta: Perfectly yes. The follow up was essentially on the margin; is the understanding correct that the price hikes also will start to flow through a lot more in Q2 and hence from a margin perspective logically gross margin should slowly start to improve as we go forward, what I was trying to get to is it does seem like Q1 is probably the bottom in terms of gross margins?

Bharat Puri: I do not think there will be a substantial difference between first quarter and second quarter because we have taken some pricing in the first quarter, but as I said the highest impact of raw material, so material cost is a percentage of sale, if we would look at constant prices would be the highest in Q2 and not Q1. Having said that, let us see how the product mix works out and how consumption works out, but it is not going to be significantly better or significantly worse, it will probably be in the same range.

Avi Mehta: Okay Sir got it, and second bit is to just understand on the last call you had indicated a focus on innovation that you would try to start to build in so is there any update in terms of the initiatives that you had planned in terms of distribution and new product launches?

Bharat Puri: See first I will tackle distribution. Yes, on distribution we have continued our strong investment especially in the smaller towns and rural India. As we speak, we now have more than 7,500 Pidilite ki Duniyas in rural stores, in villages which have a population of between 5,000 and 10,000. We have now added another 17,000 villages to our direct coverage in the course of the last six months and these are normally villages with a population of between 5,000 and 8,000. Overall from a depth of Pidilite reach perspective, from our investment in route to market especially in small towns and rural areas, we continue the march. As far as situation is concerned, each of our divisions are for example, our waterproofing division has had an innovation in terms of products you would have seen advertised in the first quarter called Roofseal Classic which is a coating for roofs. Similarly each of the divisions now has an innovation program, each of these would be significant innovations which obviously over the next 18 to 36 months will start contributing substantially to revenue.

Moderator: Thank you Sir. We take the next question from the line of Mr. Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks and congrats on a very good performance. My first question is on the business which suffered a lot in the last two, two-and-a-half years, so on the art and craft you have mentioned the business has doubled because schools are now back, so want to understand here two



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things- how is the margin profile here have you managed to take the price hike here also almost 75% towards the inflation impact and second have you gained market share because such a tough time to your competitors so ideally you would have gained market share here?

Bharat Puri:

Firstly good to hear from you. Really as far as art materials is concerned, a lot of the margins in art material are linked to price points Rs.10, Rs.15, Rs.20 and therefore you tend to be a little more conservative. So again our pricing here while at the gross level would be at 75% of inflation, in some cases it may only be 60% because you want to maintain the sanctity of the price point. Having said that, have we gained market share, I think the answer is yes, if we look at our growth rates what has happened is there is consolidation happening and from a distribution and reach perspective the larger players clearly are gaining at the expense of smaller players.

Abneesh Roy:

My second question is on the observation you had made in the Q4 call, that in the global shortage in raw material there were two issues, one was the force majeure clause of many plants which were there and there was cartelization. I understand the global recession here which is driving down most of the other commodities, but on these two aspects, what is the update on the closure of plants and cartelization?

Bharat Puri:

There are still one or two plants, but obviously you cannot keep plants closed indefinitely so we are definitely seeing at easing. I suspect your next question is going to be on VAM rate so I will answer it straightaway. If you look at VAM we are finding the VAM is moderating and the spot rates are now gone below \$2,000, in fact they range anywhere between \$1,600 and \$1,800 a ton so clearly both from a force majeure point of view and the overall demand situation is such that it is not possible for, even these are all short-term phenomena which happen for three to six months. Now barring any unforeseen circumstances we have, last time in January we were confident that rates would come down and then Russia-Ukraine happened, as long as we do not have any geopolitical issues or some unforeseen areas that happens, we actually believe the second half of the year you will see a moderation across input costs.

Abneesh Roy:

My last question is on Araldite and the tiling solutions, on Araldite if you could give us some update on the distribution and product extension that you have done in the last few quarters and tiling solution you had mentioned 15% penetration and I think Rs 1,500 Crores price. Now with the kind of growth we are seeing across industries, a lot of good demand in the real estate also, where do you see this number for the industry in terms of penetration and price from a three to four years perspective?



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Bharat Puri: As far as tiling adhesives is concerned this is a fast growing market because obviously a lot of companies are investing and consumers with the larger and the vitrified tiles if you do not use adhesive you are going to have issues and people are realizing that. So very difficult right now because there are a lot of unorganized and small players also in the marketplace, it is very difficult to estimate what pace the market is growing, and I would not take one quarter, but if I take the last 12 months, I suspect the market is growing anywhere between 15% and 20%. We are obviously growing at rates far higher than that. As far as Araldite is concerned our march continues, we have now started introducing Araldite in small towns and rural in the first quarter of this year in one of the regions we have done that, we have tested, we are moving forward. The good news is that Araldite continues its growth path, we continue to register strong growths on Araldite, and we still believe there is a large amount of sales and distribution still to be attained even before we go into innovations of marketing, etc., which you will see in the second half. You will also see Araldite being blessed with traditional Pidilite advertising so wait and watch.

Moderator: Thank you. We take the next question from the line of Mr. Trilok from Dymon Asia. Please go ahead.

Trilok: When we compare this performance along with the other, we do not have direct competitor, but across the building materials' associated company despite having strong brands, are you sort of satisfied with the kind of two-year, three-year CAGR performance that you guys have delivered?

Bharat Puri: I first want to just clarify this because this keeps getting asked, is that the thing with Pidilite is, because we have no like-to-like, apples-to-apples comparison you fellows keep comparing us with different building material fellows largely as far as we are concerned you keep comparing us with paint. Why we are not an apple-to-apple comparison and this is especially for my friend Avi Mehta who always uses this comparison, the fact of the matter is that 15% of our business is B2B, another 15% of our business is FMCG, so really 70% of our business is what I would traditionally call bazaar and even in that I would say pretty much half our business compares to paint, another 15% to 20% compares to FMCG, another 15% to 20% compares to both projects as well as traditional B2B. Now when I look at therefore our own internal standards over a large period of time, today if I look at the end of the first quarter and obviously we are not looking at one quarter of growth - when I look over a three-year period across both my B2C businesses and B2B businesses we have healthy double-digit growths, we have got obviously access to all of the peers numbers and we continue to be in the top quartile. Please remember that we do not add back, we actually equalize volumes for value, if we were to add back the volumes of say tile adhesives, etc., our volume growths would



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actually be one-and-a-half times what they are today, but that frankly is not a fair comparison. So at an overall level are we satisfied, yes, can we be happier, definitely we can be happier. I do not tell my teams I am satisfied, but at an overall level all our numbers and our indications show that we are in the top percentile of the top quartile of performers and that keeps us happy.

Trilok: Fair enough, we also understand that you guys are not like-to-like comparison, but from value perspective and volume both at least, for our understanding you guys seem to be lagging so that is why I asked are you guys **satisfied** with the performance and second is, in the historical competition we obviously never intended to venture into paint as a category, but as per our checks it suggests you guys seem to be planning to do so, could you just comment on that please?

Bharat Puri: You must understand that we have an overlap with paints in a lot of areas, a large part of waterproofing is coatings, now a lot of times paint companies take their exterior coatings and actually quote that under waterproofing. The roof coatings which also a lot of times come under waterproofing. Similarly, traditionally because of our pigment business we have had a tinting business, we have always had a rural DDL and distemper business which has existed for 20-25 years and then our premium subsidiary ICA Pidilite is in premium wood finishes. So actually if I add all of my paint businesses, we are a significant player in paint though we are not a consolidated paint major. As far as we are concerned therefore I suspect your question is shorthand saying are we going to do another five plants large scale paint entry, the answer is no. We are happy with the way we are going as the Pidilite model is about creating disruption, whenever we find we can create markets, we can disrupt markets that is where we focus on that is where we put our resources and that is what we continue.

Trilok: So the understanding of you getting directly into paints is not true as of now, correct?

Bharat Puri: As I told you we are already in paints.

Moderator: Thank you. We take the next question from the line of Mr. Krishnan from Motilal Oswal. Please go ahead, Sir.

Krishnan S: Typically Pidilite has always operated at a certain premium to the other brands and the other players in the market and therefore the guidance of 20% to 22% margins and now you have indicated that VAM cost have come down to about \$1,650 to \$1,800 per metric ton. Do you see a scope for a sharp deflation, sharp reduction in prices and possibly a sharper reduction



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in prices than the inflation in your own product prices, is that the likely possibility towards the second half of the year?

Bharat Puri: That is a great question, but very difficult to predict. See today's VUCA world where fortnight-by-fortnight things keep changing very difficult to work out, if nothing unforeseen happens, we do see VAM coming down to more palatable levels so on and so forth, but frankly wait another three months when we actually see the trend because right now it is like to a fortnight or a month of trends. Let us wait another three months and then we should be far clearer on what second half margins will look like.

Krishnan S: Again going in the same way that you had indicated in the last quarter that the unorganized and smaller players were more adversely affected from a commodity cost perspective, do you see a scope for competition increase in the second half of the year and beyond or again is it too early to say?

Bharat Puri: To my mind whenever the material cost situation turns benign and I do not know when it will, competition normally increases because a lot more people jump in, in these current times when the situation is inflationary, most of these people have much longer credit periods and they tend to buy a spot from the market. So will competition increase? frankly in our sectors we are no strangers to competition, we keep getting newer competitors as well as the old ones. Frankly we expect that to continue and we always work with the assumption that it will remain a very competitive space.

Moderator: We take the next question from the line of Mr. Percy from IIFL. Please go ahead.

Percy Panthaki: Hi! Sir, just wanted to know what is the total price increase you have taken in the last five to six quarters on Fevicol as well as on our overall company on a weighted average basis?

Bharat Puri: Good to hear from you Percy it is a very difficult question because as I said we have got so many product ranges, divisions, on a weighted basis I would say our price increase is anywhere between 14% and 18% over a years' period and Fevicol would probably be at the high end of that.

Percy Panthaki: So it is not as if Fevicol is like 1.5 times or 1.7 times?

Bharat Puri: Remember we have always said that we would be conservative, we would rather sacrifice short-term margin for medium-term volume and that is what we have been doing now. So Fevicol is not 1.5 and 2 times for any such thing.



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- Percy Panthaki:** Since VAM has come down I am assuming that there are no further price increases in the pipeline, right?
- Bharat Puri:** Absolutely, if this trend on VAM continues which knock on wood hopefully it should then obviously we would not need to raise any further prices.
- Percy Panthaki:** Secondly, I just wanted to understand some of the niche or rather smaller brands that you have on which you are focusing for growth so things like Roff or WD-40, etc., so if you take that as a portfolio what is the growth of that portfolio as indexed to your overall company growth?
- Bharat Puri:** As I say at every investors' meet we break our business into three buckets- core, growth and pioneer, core is where we already have a market leading position, our job is to grow the category- there we try and grow between 1.5 to 2 times GDP growth. In growth categories, where we are competing against non-consumption, things like waterproofing, things like floors, joineries, etc., we try and grow at 2 to 5 times GDP and third is pioneer categories where we want to achieve a certain minimum size, that minimum size normally is Rs.100 Crores in three years those are the parameters with which we operate each of our categories and largely actually in the last 12 months we have been exceeding these numbers.
- Percy Panthaki:** So would you be able to give some ideas on which are the brands which are in your pioneer categories, but which have sort of not reached that Rs.100 Crores mark?
- Bharat Puri:** Right now for example if I look at floor coating, we have a company called CIPY that largely currently operates in the industrial flooring space. We have not done much in the area of commercial flooring etc., now that is something that is a pioneer category. We have a whole category called epoxy grouts which we have a brand called Roff Starlike, epoxy grouts is another category where we are in the pioneer. So like this remember, at any point of time at Pidilite we will have anywhere between five and eight pioneer categories being tested in various places, these are some of those.
- Percy Panthaki:** One last clarification, this ratio of GDP which you are talking about. Firstly the GDP itself you are talking about the nominal GDP growth or the real GDP growth and secondly in terms of your growth, you are talking about volume growth or value growth in this equation?
- Bharat Puri:** Normally we try and equate real GDP growth to volume growth and nominal GDP growth to value growth.



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Moderator: Thank you very much Sir. We take this next question from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Sir, the first question was a follow up, with respect to margins so you have said that we are seeing trends of VAM prices coming down. At the same time you have said that we would not be taking any further price hike, so in order for us to go back to the pre-COVID level margins or the high margins of the past, do you think we are at a point where operating leverage will be the key driver of margins going ahead?

Bharat Puri: Firstly good to hear from you Sheela I think that is a great question. Right now again in this uncertain VUCA world very difficult to say what will happen three, six months later but it does appear from where we sit today, that going forward frankly the decrease in input prices will actually become a greater contributor to margin growth than anything else because we do not know at what extent and where they will fall to and we hope that they do. Otherwise your question is right, we do not see greater pricing action taking place hopefully in the next 12 months so therefore whatever leverage you will get will be operating leverage but in our belief it will take six to nine months for the whole input prices situation to really settle and for it to find its real level where we say that this is the new normal it is then that we will be able to ascertain where we are and what we need to do.

Sheela Rathi: My second question was with respect to your distribution strategy. You mentioned that you are really going into very small towns, if I heard it correctly the population size is about 5,000 to 7,000 people is it too small for a category like yours I would believe that you would focus more on the core category to spread your wings in those smaller towns but why is there a need to go in such small towns when the opportunity is much higher in urban as well as Tier-3, Tier-4 cities?

Bharat Puri: Sure that is a great question, remember it is not either-or, we are pushing hard in urban. For example, if you look at the last quarter actually the growth is led by metro in Tier-1 and even if I look at a three-year period, our metro and Tier-1 growths are very healthy, but our belief is that when I equalize small towns for income we still believe because of a lack of knowledge and a lack of understanding, we are not achieving what we believe is the right penetration for our products there, which is why we are doing all of these initiatives that people who can afford our products. Remember in the rural areas, whenever people have any form of prosperity it goes either into construction or into gold. Now construction is right up our sleeve and therefore if they do the right waterproofing at stage one then we have got trained users right from the base of the pyramid. The second thing of course is, that any objects that they have reused is a much bigger thing in rural areas whether it is your agricultural pipes for



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which we have solvent cement, whether it is objects at home for which we have again a whole range of glues. Our belief is that we must keep investing in this market, while we continue urban and Tier-1 which is easier to focus on, by no means are we taking our focus away from that.

- Sheela Rathi:** What would your revenue mix be with respect to urban and rural currently?
- Bharat Puri:** See very difficult to say because of the extent of wholesale but at a broad level it will be two-thirds, one-third.
- Moderator:** Thank you. We take the next question from the line of Mr. Ritesh from Investec. Please go ahead.
- Ritesh:** I am just trying to put my head on basically diminishing marginal returns, you indicated focusing on more villages with lesser population I am just trying to understand how do you look at the size of the market, the investment and what do you expect out of it, if one have to put it in numbers how should one understand that?
- Bharat Puri:** That is a great question. We have a whole system where we actually have divided the country into a whole set of sub-states based on economic prosperity and we obviously have surrogate measures of economic prosperity, against that we plot the penetration of our products in these sub-states and then based on obviously a system on where we believe the greatest bang for our resources is we prioritize a set of sub-states. So it is a fairly evolved system I would not pick it up here, but obviously your question is the right one in a country as large as India and as widespread as India how do you prioritize and make sure that you are not pushing water uphill. We have got a fairly evolved system over time where we realize that if a place has this kind of economic potential, this is what is our rightful share and then based on where we are try to prioritize and say this is what we will take up in stage one, we will do something else in stage two, etc. For example in places like Bihar, we are actually working with HUL where we are using their Shakti platforms to actually take forward our products because we realize that it is not viable for us to do the same, so like this we keep putting various experiments in place. Our whole objective remains to make sure that the first mover and first user advantage remains that any consumer in the smallest of small towns starts with Pidilite and hopefully stays with Pidilite.
- Ritesh:** Sir can you detail the actual platform that you indicated; sorry I could not comprehend it?



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- Bharat Puri:** HUL has this concept of the Shakti where they have the Shakti Ammas who go to the small towns and villages, etc., we are trying to work with them in a partnership with them where they sell not only HUL products but our products also in Bihar.
- Ritesh:** So if I have to put the question if I just flip it around. We have a basket of SKUs how do you look to cross-sell the number of SKUs, that is one; or the other way to look at it is if you are targeting a village with a population of say 5,000 to 10,000, is there a metric that will look at it to target on a per capita basis to make sense to go into the hinterlands so there are two questions one is per capita and second is the extent of ability on cross-selling SKUs?
- Bharat Puri:** The first one frankly the per capita one is the one that we use but we do not use a simple measure of per capita we use what is called per capita economic potential and how much of it are we actually accessing. As I said we divide this into sub-states, those sub-states we assess the economic potential and see against that potential how much of that are we penetrating. As far as cross selling is concerned, actually in the smaller towns and rural areas it is much easier because the outlet tends to be the same. See the guy in the small village and sells Kirana year-round and then he sells various seasonal products and sells stuff with building materials so therefore accessing these outlets and cross-selling is not a problem.
- Ritesh:** Would it be possible for you to quantify per capita economic potential that we look at?
- Bharat Puri:** Again as I said it is different for different sub-states, may be like in a different meeting we can do that and take you through, but it is fairly evolved and I would say we have a lot of intellectual property invested in there.
- Ritesh:** My second question is you emphasized on disruption it has always been disruption when it comes to Pidilite, you did elaborate that we are in paint in different forms already, but if we really had to be in paint what would disruption mean over here to Pidilite?
- Bharat Puri:** See disruption would mean, if I was to go back in time, if we were the first guys with tinting machines that would be disruption right. So the things that disrupt the market where you become a one or two player where the others do not have a chance of, in a sense catching up with you, that is disruption to our mind or if you had some like miracle products so on and so forth. I am just thinking aloud given my old background in paints, but anything that where you get Aha from the consumer or the user or the seller or all three of them.
- Moderator:** We take the next question from the line of Mr. Rishi Mody from Marcellus Investment Managers. Please go ahead.



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Rishi Mody: Sir, just wanted an update on understanding in the past three, four years we have seen a lot of these paint players and a lot of hardware building materials players coming into the white glue segment which is your core category so just wanted to understand has there been any market share loss to the likes of Asian, Berger, Astral or are they taking the share from the unorganized sector?

Bharat Puri: That is a great question, we have been obviously keeping a close watch on them. Frankly the only player that actually puts some volumes which are significant out there is Asian. Asian uncharacteristically so, is actually operating at the bottom end of the market, their current pricing is actually the equivalent of economy glues they are tending to gain a lot of share therefore from the unorganized / small players, but if you look at our growth rates and again I am not looking at growth rates only over this quarter when I look over the last 12, 18 or 24 months, in our belief we are actually gaining share, we are not losing share in white glues by any stretch of imagination.

Rishi Mody: So on the waterproofing front as well there is a lot of aggression by the paint players, we are trying to do something which will replace Fixit so just wanted to understand like what kind of projects is Fixit getting used in and what kind of projects as Asian's waterproofing getting used and have, we lost any market share out there to the likes of Asian, Berger?

Bharat Puri: Again in waterproofing I have always said there are two large segments - new construction and repair and renovation. Normally the paint companies largely tend to play in repair and renovation though some of them are now putting up project teams for new construction. In new construction our competition tends to be the large multinationals like Sika or BASF or Fosroc. In retail which is the repair and renovation it tends to be the paint companies. Again with the entry of the paint companies what has actually happened is this was a tremendously underdeveloped market. The market itself is growing at a much higher rate when we look at our growth rates, we believe we are still growing faster than the market. There is also consolidation taking place but, in our belief, we have not lost market share at the gross level to any of the paint players, in fact our growth rates remain very healthy. Most of the paint companies also, remember in waterproofing are still playing in the coating space, products that painters can use rather than masons, etc. Masons is a new user for them which they are not familiar with. So even in repair and renovation they tend to be more concentrated on coatings if you see their offer, it is largely around coatings but as I said at an overall level when I look at the waterproofing portfolio we are maintaining our momentum and in fact actually what is happening because of all of this action is the category is growing and because we are the largest we tend to get a larger share of the category.



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- Rishi Mody:** So a lot of these paint players are also creating what they have been claiming to say that they are training people to become waterproofing specialists. So just wanted to get an idea on where we are on that front like because if the category is going to expand it is going to professionalize as well, we will have special list applicators for this and Masons painters there will be a differentiation then so just wanted to get your view on this?
- Bharat Puri:** This is something that Pidilite has been doing for years, we have a skilled water proofers program where we train people to become water proofers, we certify them based on their level of skill, we then recommend their services, frankly all that the paint companies are doing is just following us. In fact a lot of them have taken some of our people and therefore actually it is a great compliment to us because Imitation is the best form of flattery they are all actually doing what Pidilite has been doing for many years.
- Moderator:** Thank you Sir. We take the next question from the line of Mr. Rajesh from Informist. Please go ahead.
- Rajesh Gajra:** You mentioned about the input cost staying elevated because the materials that we sourced in the June quarter would also get consumed in the current quarter. So will it be possible for you to give us a sequential rise in your cost of production in the June quarter and how much do you expect the rise to be in the September quarter, the sequential quarter?
- Bharat Puri:** My friend if I put team on it, it will take a lot of time because remember we operate across 30 different verticals, each of whom has a different raw material cost, but at a level if I can tell you - our VAM consumption would be between \$2,200 and \$2,400 a ton in the first quarter, in the second quarter it will probably be between \$2,300 and \$2,500.
- Moderator:** Thank you. We take the next question from the line of Mr. Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Aggarwal:** I have just one question on the demand. So if we look at this quarter, our volume growth has been pretty healthy both in consumer and bazaar as well as in the industrial side. Now if I look at particularly say our topline growth trajectory so first time around we have now crossed the Rs.3,000 Crores like last year Q3 which is usually perceived to be the festival quarter we were at Rs.2,800 so is this you can say this kind of volume growth or the uptick we have seen is there some one off element or we should consider it as a new base and then we try to build upon this and is the demand so strong that it will continue like this?



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Bharat Puri: I again will remain cautiously optimistic. To our mind in this first quarter there has also been a certain element of pent-up demand and obviously when you are comparing bases you are comparing versus two months of last year to three months of this year because for one month COVID was closed. Having said all of that, clearly we are seeing some tailwinds in terms of good housing demand, we are seeing that post COVID consumers are investing a lot more in their homes, be it in repair, be it in renovation, be it in upgradation, we are seeing an upsurge in the whole real estate sector and clearly you are seeing organized real estate and commercial real estate see some upside. On the other hand, the headwind is inflation. We all know that in any emerging market, inflation will always be moderate growth. Now in across building materials, if you were to build a home between last year and this year, I do not have the exact numbers, but I suspect your costs are up anywhere between 12% and 25% and therefore that does tend to impact volume growth. I think the next six months will show where does really the new normal come to. Our focus will be obviously on profitable volume growth because if we are able to make sure that we are getting volumes, then we will reach the next phase of growth.

Amnish Aggarwal: Just one thing incremental on this because we have been doing lot of innovations, new launches so what could be the share of topline from the products which we have launched in the last couple of years or last two, three years?

Bharat Puri: See let me say that number is a confidential number, but it is a significant percentage of sales.

Amnish Aggarwal: So is this in good double digits?

Bharat Puri: No, if it was a double digit then our growth should be something, as a percentage of growth it will obviously be in double digits, but in the percentage of total it will not be in double digits.

Moderator: Thank you very much. We take the next question from the line of Mr. Divij from Ankhonia Advisors. Please go ahead.

Divij: This might be a bit repetitive, but just to get a sense on Tier-2, 3 and 4 cities you said repair and renovation being one aspect and construction of new infrastructure of homes being another, what do you expect to drive this in say the next one year, again like you mentioned given the inflation constraints on the consumer with elevated food prices and energy, etc.?

Bharat Puri: See in most Tier-2, 3 and 4 towns new construction tends to drive growth though repair and renovations an equal piece during festivals, etc., whenever the crop earnings, etc., come in,



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consumers will both repair, renovate and then add a room or add a terrace and so on so forth. Based on the inflation, difficult to say where it will pan out, but I suspect the mix will not change, we will just have to see where the quantum is and it will really depend. To my mind this good monsoon will take another three months to play out. In the second half of the year hopefully you will see a good impact of this monsoon also.

Divij: Second question with regards to paint players and I am going to dial down specifically on Asian Paints, I think you would be well aware given your history with the company they have sort of morphed their business now as opposed to traditional coatings and paints into decorators altogether where they transform your house end-to-end, be it from consulting to in-house products available, so does that pose an additional threat as far as repair and renovation and construction is concerned, considering that their distribution network is sizable as is Pidilite's?

Bharat Puri: To my mind it all depends on the scale. Currently they have an initiative which is doing that but frankly it is only restricted to large towns and that also to small parts of large towns, for it to significantly impact the millions of customers who construct or repair and renovate every year involves a scale which is very, very different. I would say the jury is out as of now from a distribution perspective frankly we believe actually we have a reach which is far deeper than any of the paint companies.

Divij: Last question with regards to your distribution itself considering you have got such a robust network. If you can give an overview hypothetically, now that we have seen sort of an erratic monsoon and I am doubling down on Tier-2, 3 and 4 cities because that is largely the narrative as to where growth is coming forth in the next three or four years in India. What do you see with regards to monsoon because we have seen states like UP, Jharkhand, Gujarat and Bihar not have the amount of rain that they would essentially expect this year around, where we are saying paddy zone per square foot having reduced by about 13% do you think that is a bit concerning or are you still optimistic for the year to come?

Bharat Puri: See I think all the numbers you are giving are the right ones but my simple answer to you would be let us address this question at the end of the monsoon. It is clear that the pattern of the monsoon over years has changed, we seem to have these sudden spurts rather than this constant monsoon. Let us revisit around September 15, 2022 and then we will know where prosperity is high and where it hasn't been good very difficult to say currently.

Moderator: Thank you very much. We take the next question from the line of Sanchit Narang from Paras Sales. Please go ahead.



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Sanchit Narang: Sir I am saying that in C&B business we are seeing a 2% margin drop as we compare it to year-on-year basis, so when can we expect it to come back to the previous level like it was 24% previously?

Bharat Puri: See as of now as we have consistently said we have purposely moderated margins in the interests of volumes. As raw material prices ease, as input prices ease, we will see it come back we would rather prioritize volume. If you see the absolute profit we are still growing very healthily, so we would still prioritize volume over percentage margin, but given the way raw materials are difficult to say, but I would suspect hopefully our exit margins will be in our band of 20% to 24%.

Sanchit Narang: Okay that is helpful Sir and the second thing if you can guide us with the PAPL numbers in terms of revenue?

Bharat Puri: The PAPL has now got merged into Pidilite but if you have last year's numbers, I can tell you that our growth rates in PAPL are very similar to our growth rates at an overall level. So PAPL is growing very healthily.

Moderator: Thank you very much. We take the next follow-up question from the line of Rishi Mody from Marcellus Investment Managers. Please go ahead.

Rishi Mody: Just one broad question. So we are seeing a lot of this trend of a modular furniture coming into the play for people who are renovating their home, or they are buying new homes so just wanted to understand how you view this. Is it a positive, is it a negative because what we understand is that a lot of glue gets consumed in furniture and a bunch of it gets wasted which is going to reduce once modular furniture comes into play so I am coming from that thought line, so if you could just give me more understanding of this phenomenon that is taking place in the furniture industry?

Bharat Puri: See for long we have been looking at the whole area of modular furniture, it is actually not a new thing. Modular furniture has now existed for a large period of time, there are a large number of joineries that have been set up. One of the reasons why we did our tie-up with Jowat who is Europe's leader in a technology called hot melts which actually go in these joineries is that we wanted the same market share in the joineries that we have in retail. So having said that, what we are seeing is that while modular in a growth rate sense may be higher it is still 85:15 or 90:10 between customers making custom-made furniture because this is the only country in the world where you can custom make your furniture to your house, and it is cheaper than readymade furniture. Therefore while 10 years back we all did this trend



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work and thought that it is going to actually go up very substantially frankly the growth rates have not been at those levels at all. Having said that we are obviously alive to it, we keep studying it, we have similar market shares in the joineries that we have at custom-made furniture.

Rishi Mody: If I am to get an idea of how much value of adhesive gets used in a custom-made furniture versus a modular furniture including your joineries and everything if Rs.10 gets used in a custom made furniture how much would be getting used in a modular furniture in totality?

Bharat Puri: Frankly in value the number, because the technology used is different what joineries use is a technology called hot melt adhesives which actually melt under heat, now one or two other people may be still trying, but we are the only local manufacturers of hot melt, the rest is all imported. So on a per kg cost, etc., or on a usage cost there is not a great difference. It is only at the lower end of the market whereas the cheaper end of the market just as in a custom-made furniture you have economy glues in joinery furniture with the cheap joinery is may be using cheaper products.

Rishi Mody: So like ideally if modular furniture picks up over the next decade or so we should ideally benefit from it given the current scenario, of course there will be prices coming down in the future once more players enter, but the high value items go into modular furniture compared to the custom furniture?

Bharat Puri: It all depends on the quality of furniture just as in every market there is furniture for Rich India, Middle India and Aspirant India, it is the same here. So the quality is differ dramatically difficult to make one generalization.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for the day. I now hand the conference over to Mr. Arun Baid for closing comments. Thank you and over to you Sir!

Arun Baid: On behalf of ICICI Securities I thank the management of Pidilite for allowing us to host the call. I hand over the call to the management for any closing remarks post which we can close the call.

Sandeep Batra: Thank you very much to all those who joined the call for their continued interest in tracking Pidilite and will connect with you after the second quarter. Have a good evening gentlemen.



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

(This document has been edited to improve readability)