

13<sup>th</sup> February, 2017

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Mumbai - 400 001  
Stock Code - 500331

The Secretary  
National Stock Exchange of India Ltd.  
Exchange Plaza, Plot no. C/1, G Block,  
Bandra-Kurla Complex,  
Bandra (E),  
Mumbai - 400 051  
Stock Code - PIDILITIND

Dear Sir,

**Sub: Transcript of the Earnings Call**  
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We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors on 3<sup>rd</sup> February, 2017.

Kindly take the same on your records.

Thanking You,

Yours faithfully,  
For Pidilite Industries Limited



**Savithri Parekh**  
Secretary

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Pidilite Industries Limited  
Q3FY17 Earnings Conference Call

February 03, 2017

**ANALYST: MR. NITIN BHASIN – AMBIT CAPITAL**

**MANAGEMENT: MR. APURVA PAREKH – EXECUTIVE DIRECTOR –  
PIDILITE INDUSTRIES LIMITED  
MR. PRADEEP JAIN – CHIEF FINANCIAL OFFICER –  
PIDILITE INDUSTRIES LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Pidilite Industries' 3QFY2017 Earnings Results Conference Call, hosted by Ambit Capital. 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. Nitin Bhasin from Ambit Capital. Thank you and over to you Sir!

**Nitin Bhasin:** Thanks operator. Good afternoon folks. Good afternoon management. Thank you for giving us this opportunity and straightway I will hand it over for opening remarks from the management and then we will open the floor for questions. We have Mr. Pradeep Jain and Mr. Apurva Parekh from the management.

**Pradeep Jain:** Thank you Nitin. Good evening everyone. Welcome to Pidilite Industries Q3FY2017 earnings conference call.

Let me begin with a few comments on the macro front. Demonetisation has led to near-term disruptions in the overall business environment. We are hopeful that this would stabilize over the next few months. It presents an opportunity to further strengthen our direct distribution and gain market share from the unorganised segment. While the demand outlook remains uncertain, we are hopeful of a gradual improvement in rural demand and consumer sentiment on the back of good growth in the agricultural sector further aided by the GST implementation in 2017-2018.

Moving on to the performance for the quarter ended 31 December 2016, our standalone gross sales declined by 1.6% over the same quarter last year. This was driven by a 2% decline in the sales of consumer and Bazaar products and 3.6% decline in the sales of industrial products.

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EBITDA, before non-operating income and exceptional items, declined by 2.6% over the same quarter in the previous year. Profit before tax grew by 0.8% and profit after tax grew by 3.1%.

On a consolidated basis, gross sales grew by 0.7%, EBITDA, before non-operating income and exceptional items, declined by 0.8%, profit before tax was flat and profit after tax grew by 1.7%. With this, we would now like to open the floor for questions.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from Abneesh Roy from Edelweiss Financial Services. Please go ahead.

**Abneesh Roy:** Thanks for the opportunity and congrats on good performance. My first question is we have seen recently paint companies take price hike after many quarters. So in your case, Sir, if you could take us through the pricing strategy in 3Q how pricing has been YoY and, going ahead, based on VAM prices and VAM prices are currently if you could discuss that. Where do you see pricing growth coming back? When do you see it coming back?

**Apurva Parekh:** There has not been a significant movement in VAM prices; however, there has been increase in prices of some of the other raw materials. As far as our pricing strategy goes, you know it is a judicious pricing strategy. We look at various factors including market conditions, competitive intensity, etc., and we take price increases, which are in medium to long-term interest of the company. At this moment, we have not taken any sort of price hike; in some products where we required we have announced some price increases, but there is no across-the-board price increase like what has been talked about for paint companies.

**Abneesh Roy:** This price increase, which we have taken as of now, will the weighted average be less than 1% on the entire basket?



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**Apurva Parekh:** It may in that ballpark yes; it may be 1% or less.

**Abneesh Roy:** WD-40 has been a very different strategy to what you have done till now and now some more time has gone by, so if you could take us through what is the clarity now in terms of distribution expansion? Will you do a lot of advertising on this in mass media and this product has been there in India for few years, but what is the potential of this now that you have had some time since the acquisition?

**Apurva Parekh:** It is. Everybody is not aware of this. WD-40 is a multi-purpose maintenance spray. It is owned by a company in the US; it is a household name in the US. It is very widely used by households, mechanics and industries and a lot of other craftsmen. So, it is a very, very popular and very widely-used product in the US and most other parts of the world.

We have entered into a distribution arrangement with them whereby we are their exclusive partner for India and we distribute this product across India. In terms of strategy why we have done this, there is tremendous synergy of WD-40 with both our distribution network as well as our end users.

We have good penetration with all the end users, as I just mentioned. We have a very good relationship with them. So, essentially, we have a very good access to both consumers and distribution network and hence that was our sort of motivation to take this product. Also, it would help distribute, along with WD-40, some of the products in segments like small industry, medium industry. So overall, we thought it was a very synergistic tie-up which would help both the companies. The distribution tie-up started from, I think, around 1 September or so and what we have done in the first phase is we are expanding distribution network compared to the earlier companies, who were distributing this product; we are much superior with a wider distribution network. So, in the first phase, we have begun to

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distribute this product across India and now we are following up with significant market development activities as we do for many other brands of Pidilite.

As far as the potential goes, as you know, as per our company policy, we would not like to give out a turnover of our individual brand, but it is going to be good and it is also going to have synergistic impact on some of our other brands and we believe it will have good impact on company's revenue, it will have material impact over a period of three to five years, but I would not like to spell out the exact figures.

**Abneesh Roy:**

That is quite helpful. Here one or two follow-ups. You said it would be synergistic to some of the other brands. If you could explain that and second is, in terms of B2C, are you targeting B2C in this, so will it be present for example as much as I say Feviquick I can get in almost any shop, will it be distributed that much?

**Pradeep Jain:**

One of the bigger uses of WD-40 is into repair and maintenance and, hence, it is used very widely by all types of industries for maintenance and repair type of work. Pidilite also has some products, which are used for maintenance and repair. So, in this way, we have a wider basket of our offering for maintenance and repair segment and hence it allows us to promote both of our products together; it allows us to get little better distribution, so that is what I meant by synergistic impact.

Another end-user segment is mechanics. We have a lot of products, which go to mechanic; WD-40 also has good use in mechanics, so again we have opportunity to cross promote these products and expand our distribution. As far as household goes, you asked a question about Feviquick; I would not like to comment whether it would have same usages. Possibly Feviquick has bigger usages, there is more usage occasion for a product like Feviquick than WD-40 and WD-40 is likely to have much greater industrial and craftsmen application, but it will also have some household application.

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**Abneesh Roy:** Last question. In the past, you have said, in terms of expansion, you look at more emerging markets especially Africa something I think where Pidilite can have much more exposure. So could you talk about that now as we are entering FY18?

**Pradeep Jain:** As far as Africa goes, as you know Abneesh, we have a manufacturing plant in Egypt that was set up around seven or eight years ago. So, we have an operation in Egypt and from there we try to service some of the markets in North Africa. As you know, the Egyptian economy has gone through a lot of ups and down, but we have been working hard at it and that business is growing at a reasonable pace and we are committed to both our Egyptian operation and serving some of the North African market through that.

In addition to that, we are doing some work in countries like Kenya, Ethiopia and a number of other countries in Africa. We have two or three models. One is either we export our products to distributor there. In some of the countries we have feet on the ground and we try to develop the market on the ground. In some countries, we may, going forward in future if we believe there is a good potential to, even set up a manufacturing operation. So, in that direction, as you know, we have formed couple of entities also in Africa to develop some of the other markets. So, long term, we believe Africa has great potential and we continued to work towards it. Setting up the plant in Egypt was the first step and we are working towards a number of other steps to develop that market.

**Abneesh Roy:** My first question was do you need to expand by buying some companies as bolt-on acquisitions, because distribution is clearly something that would be weak currently in the other markets, non-Egypt market, so how do you plan to scale that up?

**Pradeep Jain:** As far as acquisition goes, if the right kind of an opportunity comes, we certainly want to do it like say in a country like Egypt we looked at that kind of opportunities, nothing really good came in, so then we set up our own plants, so



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our strategy is to first start export, appoint a partner on the ground, a distribution partner, work with them to develop the market and along with that scan the environment for any opportunity that may come up. If something good comes up, which is at the right type of valuation, we can go ahead and acquire it. Otherwise develop the market and once market reaches the right level consider setting up a plant. So, in Egypt, we could not find the right target then we set up our own plant, but we have done the development of market before that. So, we will certainly keep on scanning the environment for the right opportunity, but in the meantime, we continue to do market development on ground and hence we have built a reasonable export base to Africa, we have people posted in several countries and in couple of countries we are at a more advanced stage of establishing entities and doing something more.

**Abneesh Roy:** That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL Group. Please go ahead.

**Avi Mehta:** Thanks for taking my questions. I just wanted to understand demonetization; you highlighted the demonetization remains uncertain but in terms of the month are you able to share the understanding how have sales behaved in the months of the third quarter, especially in the numbers?

**Apurva Parekh:** We would not like to obviously break up the sale figures month-wise and also this year it was unusual since Diwali also shifted by one month, so none of the month sale was really representative or comparable with the same period last year. But, obviously, the demonetization impact took place from November; it was there in both November and December. It would not be sort of advisable to break it up month-wise and try to make any sense out of it.





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**Avi Mehta:** Essentially, the reason why I was asking is to make some sense on buyers still calling out uncertain, you said that it is still not seeing a recovery. What I was trying to understand, because I would have hard checks suggest there has been recovery for us.

**Apurva Parekh:** By uncertain in the sense yes, we can say there is some improvement, but you will ask how much improvement and all that, so there is some improvement, but it still remains uncertain to the fact that we do not know what is the extent of improvement that will happen, so things are improving, but it is still not back to the normal levels.

**Avi Mehta:** That is very helpful.

**Apurva Parekh:** But we are in the first month of the quarter, it is too early to say anything and we need to let the quarter run.

**Pradeep Jain:** Wait and watch Avi, so we would want the quarter to pass and then take a view on it.

**Avi Mehta:** I understand, but just trying to get some sense around it. Second thing, what I wanted to understand the comment that you made about the African business in context with your comment in the quarterly release, so while if highlighted that you want to go in Africa, you also said in same breath that you are looking to reduce the fixed cost in that geography. Could you explain what exactly do you mean by the fixed cost over there and is this more short-term reduction?

**Apurva Parekh:** I think that comment that you are referring to is about Middle East and Africa. You are referring to the comment in the investor letter that is about Middle East and Africa, so we have two different businesses. So, we have a business in Egypt and also we have a business in the Middle East. If you may recall, we had set up a manufacturing plant for construction chemicals in the Middle East, so that



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business has faced some difficulties and has been difficult to scale up and, hence, we are doing some reduction in cost there, so that comment was related to our Middle East operation and not Africa.

- Avi Mehta:** One of cost in South America which you have adjusted what exactly was that Sir?
- Pradeep Jain:** If you see now, a very small cost, it is cost related to some separation or dismissals.
- Avi Mehta:** Just a new acquisition for Industria Chimica Adriatica if you could some share some feedback on how that performance has been and any numbers if you could share on that?
- Pradeep Jain:** That is not an acquisition. It is a joint venture between Pidilite and ICA. ICA is a leading Wood Finishes Company, very premium wood finish company, so that was the joint venture with them and that joint venture is doing well. Numbers we would not like to share at this stage, but they would be shared at the end of the year and the joint venture is moving along well.
- Avi Mehta:** Lastly, just tax rate guidance, that is all from my side for FY17.
- Pradeep Jain:** Avi, are you referring to the direct tax rate?
- Avi Mehta:** Yes, to the direct tax rate, because this quarter we saw a sharp reduction in tax, so I am just trying to understand was that one-off?
- Pradeep Jain:** That is one-off, right. Some of the assessment that was closed and some adjustments should have happened on account of that, otherwise the tax rate would be in the range of about 30% effective tax rate.
- Avi Mehta:** I will come back if further questions. Thank you.



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- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my questions. Just a couple of questions from my side. Firstly, in this demand environment, you did mention it is fairly uncertain but, in the press release, we mentioned we have been with the channel during this difficult time. Could you just give us some sense on what were the challenges that the channel faced and how did we support them, did we in any way looked at easing the credit cycle or had different schemes during that period, any sense on that because when I see there are capital employed in the consumer and bazaar segment, that seems to have gone up in this quarter. So, is that anything to do with any of these initiatives?
- Pradeep Jain:** So Gunjan, not very different from what you would have heard from other companies. Essentially, demonetization led to the disruption of the working capital cycle of the dealers and the distributors. So, like most other organizations, we also extended the credit days by about 7 – 10 days. So, that is why you see the increase in the capital employed of the CNB business.
- Gunjan Prithyani:** And what would be the credit days now?
- Pradeep Jain:** On an overall basis, if you see our receivables were in the range of about 40 days, they would have gone up to about 47 – 48 days and, as we speak, we are in the process of getting that back to the original terms.
- Gunjan Prithyani:** Okay, it is still not normalised, may be another quarter or so till we normalize this credit terms, right?
- Pradeep Jain:** That is right.
- Gunjan Prithyani:** Okay, anything else in terms of any schemes that were specifically targeted during this quarter besides the working capital or initiatives?

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- Pradeep Jain:** Nothing big that needs to be spoken of Gunjan.
- Gunjan Prithyani:** And sir second thing, I am not sure whether it is very pertinent in case of adhesives, but a commentary that we have been listening from a lot of these building material companies is that this has been a time where smaller and unbranded companies have been stressed and, hence, there has been a very significant market share move that has been seen towards branded players. Now, in any of our categories, is that a big potential which can play out over long term because this system has to move towards more no non-cash transactions when GST comes through? Is there something, is it in any of the segments this can play out in a big way?
- Apurva Parekh:** See, in most of our categories, we do think that unorganized segments have a share but it may not be very high, we have a fairly high share. So, if there is a shift from unorganized to organized, we will certainly benefit from it but I cannot say it will have a very big impact.
- Gunjan Prithyani:** Sir, on the margins now, of course we have been able to hold our margins despite crude seeing a surge in the last couple of months, of course it has stabilized now. But is that something you think is a risk to margins, going ahead?
- Pradeep Jain:** Gunjan that is, like Apurva had mentioned in the earlier part of the discussion, pricing is a very dynamic decision that the organization takes. We will want to maintain the stand that we are sitting on all time high margins driven by the all-time low commodity costs. It is clear, going forward; these margins may not be sustainable. What exactly would be the level, what will be our pricing take, etc., that will depend on a lot of factors. So, we do not want to comment on that because that is an ongoing dynamic environment.



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- Gunjan Prithyani:** Okay and what would be the VAM prices right now?
- Pradeep Jain:** No major change, it would be in the range of about \$800.
- Gunjan Prithyani:** And just last question on your Brazil business. You seem to have done reasonably well in this quarter, so what has led to this performance and is there anything in terms of our initiative around divesting or looking at a strategic partner in this business, any progress on that?
- Apurva Parekh:** See, as we have been reporting over the last several quarters, we took a lot of actions in Brazil to improve both our margins and cost structure, so all of that actions were been taken over the last couple of years and they have started showing impact over last two to three quarters. So significant operational improvement in gross margin has helped us. Currency also has strengthened a bit in last quarter, which has also helped. So, all these factors have improved the operating performance; however, we are still evaluating various strategic options over Brazil business and we will report to you as and when there is some significant progress on that.
- Gunjan Prithyani:** Sure, thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Thank you for the opportunity sir. The first question is another comment which you made in the press league about enhancing the direct distribution coverage. If you can tell us as to what is that, is there any target which was assigned to the same thing and how would be the coverage currently and again over here do we have a wholesale component or anything of that Sir?



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**Apurva Parekh:** As you know, we have four different businesses, each one with its own channels but broadly if you see our distribution is from Pidilite to what we call as wholesale stockiest and wholesale stockiest in turn either sell to retailers or wholesalers and wholesalers would further sell it to other retailers or smaller wholesalers. So, that is who our distribution network is there which is not different than many other companies. Now in this environment of post demonetization wholesale as a segment was more stressed. So, we made effort to expand both our direct distribution as well as we made effort to focus more on semi-wholesalers or smaller wholesalers so that we can expand our reach and through that we can expand our overall direct distribution.

**Prashant Kutty:** But any number to put up over here Sir in terms of what was the wholesale part of the business for us and how much are we trying to increase our distribution?

**Apurva Parekh:** It is information that we would not like to share but we have a fairly good distribution network with a good wholesale component as is there with most FMCG companies and our effort is to maintain a good balance between the two and to continue both the channels. So, it is a more continuous activity to manage the wholesalers well at the same time keep on expanding the direct distribution. This is the strategy that most FMCG companies have and we continue to work towards it; only that when demonetization happened, obviously the focus and the effort towards that increased.

**Prashant Kutty:** Sure, sir, second question over here is in terms of the consumer and Bazaar segment now. Now obviously as compared to the previous years, the growth rates have obviously come down quite significantly, I am not referring to just the quarter, I am referring to the nine-month period as well. If you could just give us some qualitative comments over here how would have probably the adhesive business done and sometimes like a construction chemicals if not at least a quantitative number at least qualitative comments how have they done. Also, I am



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asking because we have been seeing some comparative intensity heating up lately as well.

**Apurva Parekh:** See, I would give you that. Within consumer Bazaar, we have two segments; one is a consumer product and second is a Bazaar product. Consumer product is basically all our products in small packs and Bazaar is our products in large packs largely used by carpenter's water proofing applicators mainly all types of contractors and craftsmen. So, I would say consumer product was a bit more affected than the craftsmen product may be because larger consumption of consumer product is also in smaller town and rural area, which were quite impacted. So, if you see our performance and also look at other peers, consumer products were a bit more affected I am saying for the last nine months and the bazaar or the craftsmen type of products have done a little bit better than that. So, I would say our performance was also more similar where, within our two main product groups, consumer product was a bit more affected and the same was the situation before demonetization and also during demonetization. One of the reasons could be a greater stress in rural areas and smaller towns.

**Prashant Kutty:** You are talking about consumer segment, consumer products would have probably been weaker over.

**Apurva Parekh:** Yes, consumer products were weaker and when we look at peers or other companies, we find a similar track.

**Prashant Kutty:** Sure, and in the same line would it also be right when I say that when I am talking about construction chemicals again over here, waterproofing would have done better and may be something like an M-seal would have been a little weakish, would that be a right assessment again?



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**Apurva Parekh:** No, again if you see, then we will get into specific products and all, at this stage but as I said what I gave you will provide you some kind of indication; more than that, to get into specific brands, we would not like to do.

**Prashant Kutty:** Sure, not a problem. And second question over here is on the innovation part of it because I guess, this year has been little, I do not know, correct me if I am wrong, but has been little bit let us say muted in terms of innovation pipeline compared to whatever our trajectory was in the past. What are the plans for the next year; are we trying to beef up, in terms of, I am not trying to ask what products we are trying to come up with but there are segments which we are looking at in terms of beefing up the innovation pipeline?

**Apurva Parekh:** Innovation has always been very important for Pidilite and we are now going to give it even a greater thrust to accelerate our sales growth. Now within innovation we do two things, one is, we do innovation in our core categories, so if you look at most of our products, on a regular basis we would do like innovation in them by bringing new variants, or bringing new packaging, or bringing some new application of that. So, variance within core category is also very important to us. Some important example of that would be something like Fevicol Marine where we introduced a Marine grade of Fevicol several years ago. It became a big success. So, that is like a variant or an innovation within the core.

**Prashant Kutty:** Any such recent examples that we have sir like a Fevicol Marine, which has like really taken up.

**Apurva Parekh:** We have an example of something like Fevicol Heatx, which is again different type of Fevicol but has found very good success and there are several more examples. Within Dr. FIXIT waterproofing, also, there are a large number of variants which are introduced on a regular basis within waterproofing these are products with different application, different properties or different price points.





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So, one is innovation to the core categories and second has some new products, which have new kinds of applications or new kinds of usage.

**Prashant Kutty:** Something like a WD-40?

**Apurva Parekh:** WD-40 would be a one of that and there are some other new products which we are working on and which you will see. So, essentially right innovation has always been very important to Pidilite. That has been one of the reasons why our sales growth always used to be sort of above or sort of average on peers and innovation always used to play a big role in that and we are focusing on that and we think that can help us accelerate sales growth.

**Prashant Kutty:** Just one last part, in terms of the consumer Bazaar segment I was just referring to, we have actually seen really accelerated growth until 2016. I do understand it is very difficult to make an assessment at this point of time. When would we be in an actual position to see back those high growth rate numbers, is there any kind of a thought process over here and internal target which we are ahead looking at, or what could be the year where we could actually be looking at the high growth rate numbers or is it behind for us?

**Apurva Parekh:** We would not like to give an outlook. As a company policy, we have never been giving an outlook or a guideline and plus it is a bit difficult to predict when we will get back to our historic growth rate but accelerating sales growth is our top priority and we are completely focused on that and we are working towards that but I will be unable to define a proper timeline for that. Internally, clearly we are focused on that and we are working towards that.

**Prashant Kutty:** One just last book keeping question, anything to call out specifically in other expense side of it an increase of almost 20% on a YOY basis, both on the consolidated and standalone numbers actually. Anything to call out separately over here?



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**Prashant Kutty:** Because there has been a significant spike on a YoY level in the other expense side of it, or there is 25% increase or is it on account of this trade incentive which you are referring to?

**Pradeep Jain:** Nothing that immediately comes to mind. In fact, we are not relating to the 20% at all. Actually, the published results show other expenses shrinking by about 7% on a year-on-year basis; I just want to clarify that

**Prashant Kutty:** Okay, thank you very much and all the very best to you.

**Moderator:** Thank you. The next question is from the line of Amit Purohit from Emkay Global. Please go ahead.

**Amit Purohit:** I thank you for the opportunity. I do not know. I joined in late. So just want to check with you on the volume growth number in consumer Bazaar that is one and second you indicated some price hike. So, could you help us whether it is on the consumer Bazaar or it is on the industrial segment that you are and within consumer if you could help us with any specific category whether adhesive or construction chemical?

**Pradeep Jain:** Now coming to your question on overall volume growth, so overall volume growth for the quarter, we have a decline of 0.7%. So, you can take it as flat volume for the overall business.

**Amit Purohit:** And the price hike that you indicated, whether it is on the adhesive side or construction chemical?

**Pradeep Jain:** No, as a consumer in Bazaar segment, we do not want to get into specific details. What Apurva mentioned is that it is a very minor price hike right now, significantly lesser than 1%.



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**Amit Purohit:**

And sir, just some outlook on the international business, when I look at on a year-to-date basis, the international EBITDA is down about 30% on a YOY basis and there has been a significant decline when I look at the EBIT number after the depreciation, which is almost 60% decline. So, if you could just highlight a couple of points what led to this and can this be more of a one-off and probably get reversed in the years to come?

**Apurva Parekh:**

On international, I will just take you through the regions so that there is clarity on what is happening. If you look at the US, where the profits are showing a reduction of about Rs.20 crores to Rs.10 crores, this is largely due to the impact of the product recall that we had to do. This was discussed over last couple of calls so we had to do a product recall in second quarter and this is the cost related to that, if that cost was not there, US would have had a good growth rate in both sales and profit.

As far as Brazil goes, you would have seen the improvement in performance. Brazil subsidiary was of significant concern two, three and four years ago but over a period of time we had been steadily reducing losses and, as you can see, in the last quarter now Brazil company has made reasonable profit and we are hopeful that this good performance will sustain. So, that explains Americas. Our SAARC business is doing well. We have a subsidiary in Bangladesh and in Sri Lanka. Sri Lanka was an acquisition, which was done a couple of quarters ago. Bangladesh is doing well. We have a good position there and we are working towards growing that business. They had some local issues this year in terms of political and other instability but otherwise it is a good business, we have strong position and we are working towards growing their business. Sri Lanka also we made a good acquisition of a local adhesive brand and we are excited about that market. It has good potential and we are working towards growing that. So again SAARC is a good business, it has always been profitable and we expect it to grow. South East Asia largely we have one business in Thailand and it has been a reasonably profitable business but this year Thailand has seen real difficulty in both economic

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growth and, post the demise of the king, there has been a lot of instability and slowdown. Otherwise, again, it is a good profitable business, which was impacted this year. The only real concern that we have is our construction chemical business in the Middle East where we had a hired a team and we had invested some money to build a good chemical business in that region but that business is not doing as per our plans and as Pradeep had shared earlier we have now taken some steps to reduce the cost because we see that the commensurate sale may not come in the near future. So, we have taken several measures to reduce the cost. If you really look at the whole picture, there is the Middle East business where we have had an issue, and we have taken step to reduce cost and other there was a cost related to product recall, which was sort of one-off cost, otherwise North America business would have done quite well this year. So, this would explain our overall international business.

**Amit Purohit:**

Thank you so much. This is it from my side.

**Moderator:**

The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

**Anshuman Atri:**

Thanks for the opportunity and congratulations on the result in the current environment. My question is regarding the impact on the products versus services. There were some offerings like MENA, was it more impacted than the product sale or the impact was similar across?

**Pradeep Jain:**

Anshuman, we did not see too much of a difference and the waterproofing subsidiaries actually had a reasonable quarter in terms of growth.

**Anshuman Atri:**

Okay, other question is regarding, Sir, you had lot of initiatives on the waterproofing like you had some education centres set up in south which was to increase the application of waterproofing in India. So, you were expecting to increase the number of such stores on a pan-India basis. Can you please give us



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more details as to what is the progress of increasing the usage of construction chemicals?

**Apurva Parekh:** See, we had set up a centre in Kerala, an experienced centre and based on the response we will expand that to other places, some work is on to open one more centre in south and we will progressively increase such centres. However, this is just one of the many initiatives that we have been taking over last many years to expand the waterproofing market in India and those efforts continue and we are working towards growing this market and that is what you see, if you see over last 10 years, we had been able to significantly grow our construction chemical business and that is largely due to lot of efforts done and various initiatives taken to expand the market.

**Anshuman Atri:** Okay, one last question on the raw material; was the raw material price increased because of increase in the epoxy resin and can you give us a general view on as to what you are seeing in the raw material price?

**Apurva Parekh:** No, epoxy resin is not a very significant raw material in terms of our overall consumption epoxy resin is not a very large or material item. Other items like vinyl acetate monomer are bigger raw materials, which can have impact for Pidilite. So, vinyl acetate monomer has not increased during the quarter, however, there are some other raw materials which have seen some sharp increases, so that is the raw material scenario.

**Anshuman Atri:** Okay thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Sujit Jain from Yes Securities. Please go ahead.

**Sujit Jain:** Sir if you could reconcile the consolidated sales and the standalone sales that is the consolidated minus MENA plus, ICA and international sales. We have the



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international sales number in constant currency but what is that number for in rupee terms and waterproofing subsidiaries?

**Pradeep Jain:** Sujit, if you look at the overall sales performance, let me just refer to the numbers. Our gross sales have grown at about 0.7% over the same quarter on a consolidated basis and the delta between the standalone and gross sales would be in the range of 2.5 to 3 points and that delta is driven by essentially our domestic subsidiary which is ICA Pidilite which was not in last year that is about 2 points of delta and the rest is spread between the international subsidiaries and other domestic subsidiaries.

**Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

**Avi Mehta:** Sir one just question, has there been any change in the competitive intensity in the consumer Bazaar subsegment, which you would like to call out, or there is no change in that?

**Apurva Parekh:** Well, there has been no change that I can think of during the quarter but over a period of time.

**Avi Mehta:** No decline or increase in competitive intensity is what I wanted to understand, I know there are multiple sub-segments that you are talking about in the consumer bazaar but just wanted to get a flavor of what is happening in the competition side?

**Apurva Parekh:** Nothing materially different has happened during the quarter however as all of us have discussed in the past, new competitors keep on coming and some keep on exiting. People like Asian Paints have entered into adhesives or Astral acquired an adhesive business but all of that is not during the quarter, it has happened six months, nine months, a year ago, two years ago. So that way various different activities keep on happening some new players keep on entering, some players



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keep on exiting. So nothing different has happened during the quarter if that is your question.

**Avi Mehta:** Yes, and sir secondly in terms of the decline that we saw in the consumer Bazaar segment in the standalone, in the domestic entity, would the volume decline also be somewhere similar or is there a material difference in volume decline versus the value decline Sir?

**Pradeep Jain:** Avi, during the quarter, Consumer and Bazaar volume decline was about 1.5%. If we will split the overall 0.7%, Consumer Bazaar volume declined 1.5% and industrial products volume grew by about 4%.

**Avi Mehta:** Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani:** Just one question on the ad spends, was there any cut in the ad spends in this quarter because other expenses have gone down, anything on that?

**Pradeep Jain:** Sorry Gunjan you have to repeat your question, your question is about the A&SP spending?

**Gunjan Prithyani:** Yes, because the other expenses have come down, is that there was some cut back in the ad spending during the quarter?

**Pradeep Jain:** Well, I would not call it cut back. Again, A&SP spending follows our commercial calendar in line with how we have planned out our promotions etc. So, we were high on spending if you remember in 2Q and 3Q was a little lower and yes, because of the demand outlook we have become a little cautious on the spending as well.



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**Gunjan Prithyani:** Can you share the number? How much would it be or as percentage of sales in 3Q versus 2Q?

**Pradeep Jain:** So, it will be in the range of about 3% for the quarter and last year if I remember 3Q was a little higher, so that is why you see a contraction.

**Gunjan Prithyani:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Sujit Jain. Please go ahead.

**Sujit Jain:** Sir sorry my line got cut. We were talking out the difference between the consolidated and the standalone, which is the entities, if you could give the absolute numbers for the waterproofing JVs and international sales?

**Pradeep Jain:** Sujit, it is very complicated to share that because there are some inter-company elimination and all. Broadly what we want to say is you see on consolidated our net sales have contracted by about 0.3%. The broad break-up of the 0.3% is standalone has contracted about 3%, domestic subsidiaries have grown 2.3% and international subsidiaries have grown 0.4%, so that is the breakup of the 0.3%, if that helps you.

**Sujit Jain:** Okay and the other question is on Elastomer project investment, WIP, we keep getting that number. Is that under Ind-AS, would there be a point where we have to assess the impairment to that investment and start taking provisions to P&L on account of impairment to that investment?

**Pradeep Jain:** Sujit, again I do not think that so much of an Ind-AS thing. We have always been testing for the impairment of that project, by way of valuation of the project and continue the same under Ind AS as well. However, the Company has made several attempts in the past few years to find a strategic partner for the project and several parties have shown interest as well. In the meantime, the Company intends to utilize Dahej site for manufacturing Adhesives and other products for the export

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**Sujit Jain:** Sir, one last question is about the EBITDA improvement, the total EBITDA in the international business, YoY for the third quarter. Is this sustainable because I think for 1H it was negative?

**Pradeep Jain:** International EBITDA as Apurva mentioned, when he kind of summed up, each of the cluster's performance, if you look at it, the entire sizeable portion of the improvement is being driven by South America and SARRC, Brazil obviously has been doing very well for the last two quarters and, therefore, we would want to wait and watch as to how the performance progresses over the next three, four quarters, SAARC is doing well, so we are happy that our international businesses are doing well and let us see how it goes.

**Sujit Jain:** Okay. Thank you.

**Moderator:** As there are no further questions from the participants, I now hand the conference over to management for closing comments.

**Pradeep Jain:** Thank you all for your active participation and look forward to be with all of you in the next quarter.

**Moderator:** Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.