

19th August, 2019

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The Secretary
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Dear Sir,

Sub: Transcript of the Earnings Call

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 7th August, 2019.

Kindly take the same on your records.

Thanking You,

Yours faithfully,
For Pidilite Industries Limited


Manisha Shetty
Additional Company Secretary

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**“Pidilite Industries Limited
Q1 FY20 Earnings Conference Call”**

August 07, 2019

ANALYST: MR. GAURAV JOGANI - AXIS CAPITAL LIMITED

**MANAGEMENT: MR. APURVA PAREKH - EXECUTIVE DIRECTOR -
PIDILITE INDUSTRIES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q1 FY20 earnings conference call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference to Mr. Gaurav Jogani from Axis Capital. Thank you and over to you Sir!

Gaurav Jogani: Thank you Lizanne. Good afternoon, everyone and on behalf of Axis Capital, I would like to welcome you all to the Pidilite Industries Q1 FY20 Earnings Call. We have with us from the management today, Mr. Apurva Parekh. We will start with a small introduction about the quarterly results. And after that, we can take the question-and-answers. Thank you, and over to you, Sir!

Apurva Parekh: Good afternoon, everyone, and thank you for joining the conference call today. Despite challenging demand conditions, we have delivered resilient performance, driven by consumer franchise expansion in rural and small towns, earlier pricing actions and moderation in input costs. We remain cautiously optimistic in the medium-term of delivering consistent, profitable and volume-led growth.

The net sales for the quarter grew by 11%, with underlying sales volume and mix growth of 6.3%. This was driven by 6% growth in sales volume and mix of consumer & bazaar product and 12% growth in volume and mix of industrial products. Net sales growth during this quarter was on a base of 21.9% growth in the Q1 of previous year.

Gross margins during the quarter improved by 1.3% over the same quarter last year and by 0.6% over the preceding quarter. The current spot price of our major raw materials that is Vinyl Acetate Monomer (VAM) is about \$870 as compared to Q1 FY20 consumption cost of around \$980.

EBITDA before non-operating income is INR 418 Crores and grew by 16.4% over the same quarter last year. EBITDA as a percentage of net sales is 23.7% as compared to 22.6% in the same quarter last year. Profit after tax grew by 7.7%. Excluding income from intercompany transfer of intangible assets and effect of tax thereon, in the same period last year, grew by 19.2% over the same quarter last year.

Now I will come to the consolidated performance. Net sales grew by 10.3% over the same quarter last year. EBITDA before non-operating income grew by 15.7%. Profit after tax grew by 22.2% over the same quarter last year.



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Moving on to subsidiaries business, in case of domestic subsidiaries, Nina Percept and CIPY reported decline in sales and EBITDA due to market conditions.

During the previous year, ICA Pidilite has acquired brands and technical know-how of certain wood finish products from holding company i.e. Pidilite. Like-for-like sales growth after excluding these products is 18% over the same quarter last year. EBITDA growth is on account of improved margin due to scale-up of local manufacturing and some Forex gains.

In the international subsidiaries, Bangladesh and Pidilite Lanka have reported good sales growth. EBITDA growth in Bangladesh is lower due to higher manufacturing and SG&A expenses to support future sales growth. Sargent Art, a division of Pidilite USA, reported good growth in sales and EBITDA mainly due to favorable trends and growth of sales to key customers. The subsidiaries in Thailand and Egypt reported flat sales due to competitive pressures and market conditions. We can now start with questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, congrats on good set of performance. My first question is on Nina. So even in Q4, there was a dip in the sales growth. And in this quarter, there is a very sharp dip of 17%. So, in the same market conditions, if consumer bazaar can see good growth, Industrial can see good growth, why should this business suffer and, in fact, decline? You mentioned about the market conditions. So apart from the macro slowdown in terms of competitive intensity, if you could highlight on anything which is impacting your numbers there?

Apurva Parekh: Abneesh, as you know, Nina Percept is a waterproofing services company. They serve clients in the real estate segment, for commercial projects and also in the infrastructure segment. So, amongst all sectors, real estate and infrastructures are stress sectors, as all of us know. While we continue to have good order book and also new orders, there is a significant stress in this segment and hence, we have to be cautious in terms of taking up and executing some of the projects. So, the market conditions that Nina and Percept are seeing is somewhat different than what the overall Pidilite or our industrial business experience. Hence, they are seeing a little bit more of a challenging market condition which has impacted the sales growth. If you go back one year during the same quarter, I think the growth of Nina and Percept when they were two separate entities, was close to 30%. On that high-growth base, there has been some correction due to these challenging market conditions.

Abneesh Roy: Sir, two follow-ups on this. So, one is in terms of percentage of sales, how much is coming from the new buildings? And how much is from the older ones?

Apurva Parekh: Almost everything or a substantial amount comes from construction. So, construction is one. So, there is real estate, then there are commercial projects like manufacturing plants, mall and others



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which we can call as commercial construction and the third segment is infrastructure. But all of it is new in nature. Very little would be of the nature of repair, unless if there is a very large project, which requires repair, Nina and Percept focuses on new construction-related activities.

Abneesh Roy: Sir, to follow-up on that, if now the slowdown continues for the coming quarters, is there any change in terms of the business plan in terms of focusing on the older ones? And second, is there a conscious strategy because there is a liquidity crunch. So, are you also saying no to some orders because you may not get the payment?

Apurva Parekh: Yes, so first of all, to answer your second question, yes, clearly, we are very cautious in terms of financial exposure and we do say no to projects if we believe that there is a financial risk. That is one. Second, going forward, we are trying to improve our contribution of sales into non-real estate sectors. So, we want to increase our business into other segments of construction and have a lesser focus on the real estate. So that is how we plan to change the profile. However, we are not planning to take up repair projects. Now just to give you an idea, obviously the potential in this segment is very good as construction keeps on happening in India. There is a temporary period of stress. In that period, we will see our sales impacted. However, the potential in this segment is significant and we are the leader in this segment. So, while we will increase our contribution of sale from non-real estate segments, real estate will also continue to remain important.

Abneesh Roy: Sir, my second question is on the Consumer Bazaar volume and mix growth. So, on a 20% base, 6% is a good number. So, it is, say, 26% growth on two years basis. Now if I see, in most of the discretionary consumption, there is a big slowdown. So, could you elaborate from where are you getting this kind of growth? And is there the GST-related market share gain, which is panning out? And are we coming to end on that so there could be a slowdown in terms of the volume growth?

Apurva Parekh: No, you also need to see that last year's 20% growth also had some benefit of GST slowdown in the previous year. So, when we say 20% last year, which was a very good growth, that was also on a lower base of GST-impacted sales in 2017-2018, right? So that is just to set the numbers right. To answer your second question that where have we gained? We believe that our market position continues to remain strong in most of the sectors that we operate in. I would not say that there is a very significant impact due to transfer of business from GST. But our growth comes from our normal initiatives like distribution into smaller population centers, premiumization of our products, adding new products in each of our segments, focusing on demand growth including advertising and other things. So basically, it is coming from several different areas.

Abneesh Roy: And the last question, in Bangladesh, SG&A Expenses have increased, and the margins have come down significantly. Is this because of competitive reasons or is it festive-related or due to a new launch which has taken place?



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Apurva Parekh: There are two reasons. One is in Bangladesh, we are setting up a second manufacturing plant which is close to getting commissioned. It will be commissioned soon during this quarter. So, there are certain expenses that we have had to increase in terms of our staffing and other expenses which are due to the increased activity, which is likely to happen. And otherwise, SG&A is just a shift from across the quarter, there is no material impact. Our focus there is to first build a strong topline in the country. And our margin profile is very healthy. So, quarter-to-quarter, we may have some differences like that, including some higher expenses related to start-up of new plant.

Abneesh Roy: And this new plant is on extra capacity? Was there an issue in your capacity utilization? Is this a new product category?

Apurva Parekh: It is both. But our existing plant, which makes our main products, the capacity of it has now reached the limit. So, we need new capacity for the growth as well as some new products that we are adding.

Abneesh Roy: Okay, Sir. That is all from my side. Thank you.

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

Avi Mehta: Just wanted to kind of first understand the sales growth front, I mean if I go back to the Q4 conference call, you had indicated that H2 growth rates are more an indication of the underlying demand growth. Now, volume growth in the Q1 suggests some weakness from this level in the Consumer Bazaar. Just wanted to get your comments on what exactly has driven this weakness and is it more demand or is it some segment, if you could clarify on that?

Apurva Parekh: No, I think we believe that the demand conditions have been challenging. Also, in this quarter, you may have also seen the same with the results of other companies. So, we believe that there is some general slowdown and some challenges in demand. That I would attribute as the main reason.

Avi Mehta: Is this across the segments? Or is it largely in waterproofing or any particular subsegment that you would want to call out?

Apurva Parekh: A little bit more pronounce in to sectors related to construction. I would say that, yes.

Avi Mehta: Okay. So waterproofing & others?

Apurva Parekh: Waterproofing and also a lot of our other products are used for interior and construction-related activities. Adhesives also go into that segment. So, to that extent, it has had an impact.

Avi Mehta: Okay. Sir, will the underlying demand momentum continue to remain challenging? Or have there been any signs of change from thereon?



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Apurva Parekh: No, but for the second quarter, it has only been one month in, I think it will not be fair to comment on the second quarter. We will have to wait and see the full quarter before we comment on that.

Avi Mehta: And what things do you look forward to that you think can drive pickup or have you revisited your yearly expectations, or do you believe that you are still on target because of A/B/ C? I just wanted to get your thoughts on that.

Apurva Parekh: Yes. Our effort is to continue to focus on fundamentals and our own growth initiatives. So, we have not spent too much time trying to evaluate that and then try to reset some internal numbers. We continue to focus on our initiatives and we believe we have several growth initiatives. So, we are doing our best on that. Now there are some external factors which we have no controls on, so we do not end up spending too much time on that. But, for example, we continue to make new advertisement, to introduce new products, we continue to expand our distribution & focus on international markets. Now these are some of the growth initiatives which we continue to put our efforts on.

Avi Mehta: Okay, Sir. That is fairly helpful. Sir, your comment about expansion into rural, you highlighted that to be one of the drivers or aiders for growth rate. Is it got to do with more in our parlance direct reach or are you getting into what we hear about liquidity constraints in the market or if you could help explain what exactly the essence of this expansion is. Is it more the quality of distribution or is it more on the number of outlets that you are focusing on?

Apurva Parekh: All of it. As you know, we have been saying this for the last few years that our focus is on what we call as emerging India-basically the small towns of India and rural area. And we have a whole new distribution model there. All categories or businesses of Pidilite, we take them together to smaller towns, having a common distributor and a common sales team with the effort that we cover as many towns as we can. And within the towns, we have a much better width of distribution and also better market development by reaching out to more end users. So essentially, we have been doing and we continue to put greater resources into smaller towns and rural areas in terms of both sales and distribution efforts and market development efforts.

Avi Mehta: So, this is on the same line, the urban that we used to kind of focus on. It is the same line that you are talking about, right?

Apurva Parekh: It is what we used to call as rurban. There is a rurban and there is a small-town India. So basically, there is a small town is what we define as anything with population less than 200,000. And then there is a rural area, which is typically what we call as rurban, which is below 50,000. So, we have a focused effort in these two areas- one is small town and second is rurban, where we continue to put more resources to achieve better growth rates. It is in line with what we have been doing for last few years.



- Avi Mehta:** Sir, and lastly, on the VAM price. Clearly, there is a very, very sharp moderation that we are seeing and just wanted to understand, would it be fair to argue that there are margin benefits that kind of are still there or is there anything that I might be missing in kind of taking this simple assumption?
- Apurva Parekh:** No, I think your assumption is correct that the current spot prices are lower than our average consumption cost of the Q1. So, the raw material prices continue to be benign and hence, it should help us favorably. At the same time, we did take some pricing actions in the Q1, as I said in my opening statement. So, we did reduce prices of some of the products, which consume VAM. So, some of that improvement in margin, we did already pass it on to the customer because the reduction in cost has been fairly sharp.
- Avi Mehta:** How much was it on the portfolio level if you would be able to share? And was this done at the start of the quarter? So, is Q1 a fair representation of that?
- Apurva Parekh:** Some of the initiative pricing were taken right from the start of the quarter, so the impact was in all the three months. In some of the product categories, it was possibly from May.
- Avi Mehta:** Okay. And just a quantum?
- Apurva Parekh:** The overall price reduction impact may have been about a couple of percentage points on the overall sales.
- Avi Mehta:** Okay, Sir. Perfect. I will join the queue for the other questions. Thank you very much, Sir.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Thanks for the opportunity. Just carrying on the question on the margin front. So even with the price reduction that you have taken, you possibly will have very strong gross margin expansion. So, as you look into FY20, do you think that will slow down into EBITDA or there are initiatives where you can potentially re-invest some part of it in terms of growth-driving activities?
- Apurva Parekh:** So first of all, as we see expansion of gross margin, some of that we will pass it on in terms of pricing action as we have already done in the Q1 and some of it we may invest in terms of higher spending on advertising and some of the other activities. However, as and when we have had low raw material prices, if you really look at Pidilite over the last several years, wherever we have had very low raw material prices, our overall gross margin and EBITDA margin did expand. So, it will certainly benefit us. But if the reduction is very sharp, some of it will be passed on in terms of both pricing action and increase in certain expenses.



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Arnab Mitra: Thanks, and other than VAM, the other key raw materials that you use, the overall RM basket, is there deflation in all the other parts of the RM basket also? Just wanted to get a bit of sense on that.

Apurva Parekh: Yes. So there has been a reduction in the number of raw materials. Some raw materials have increased also. But broadly, if you see as an index, there has been a reduction compared to Q4 at the overall basket.

Arnab Mitra: Okay. And my last question was on staff costs. So, on the staff cost side, stand-alone, the growth is higher than the sales growth for the last few quarters. So, what is driving that and does that situation continue where you will see this high-teens staff cost growth in FY20?

Apurva Parekh: See, our staff cost increase has been higher. I would like to answer it in two ways. Overall, our staff cost is higher because of the nature of our business. Our business is of the nature where we have several smaller businesses, several niche businesses, which require their own sales and marketing network. And hence, our staff cost overall is a little bit higher than possibly comparable companies. Second, the increase has been higher because we are sort of improving both our overall capability as well as starting first some of the growth areas in which we want to invest in coming quarters and years. So, some recruitment is done ahead of time. And second, there is an overall effort to improve the capability within Pidilite, including hiring of a lot of young managers, hiring in all areas like finance, sales and marketing, R&D and other capability improvement initiatives. Having said that, we are also taking a close look at our staff costs and if we believe there are areas to optimize and improve, we will certainly do that.

Arnab Mitra: Okay. Thank you so much and all the best.

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

Jaykumar Doshi: Hi. Thanks for the opportunity. There is an update on the exchange today that you received an in-principle approval from the board for forging some joint ventures in the business areas of technical mortars, epoxy grouts and wall technologies. Could you give us some idea of what these areas are? And what are the opportunities in these areas and are you looking at entering into some of these things?

Apurva Parekh: As exactly the release to the stock exchange goes, this is an in-principle approval from the board to enter into JVs with separate companies for the products and technologies, which are mentioned in the release. So, as we know, in the construction-related area, there are different types of technologies and product categories, and there are some very good companies who have very good technologies and we are planning to enter into joint ventures with them to further advance our business. Like in the past, we have done in our tie-up with Pidilite and ICA or Jowat. We have been tapping into companies with good product technologies to help further our



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growth. In terms of the names of the company and further details, we will share as soon as the joint venture agreements are signed. Till that time, we cannot share more details as it is in process. It should happen in a few days and as and when actual agreements are signed, we will share more details.

- Jaykumar Doshi:** And will this be on the B2B side of the business? Or it will be B2C products?
- Apurva Parekh:** Largely, it is into the Bazaar segment. But it will also have some usage into large construction as well.
- Jaykumar Doshi:** Thank you so much. I look forward to hearing more on this later and good luck for the next quarter.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir, we are picking up from many consumption categories this quarter that the growth momentum was largely front-loaded. So as the quarter progresses, there is a deceleration visible. So, was it the same in our case or was it different?
- Apurva Parekh:** I would not like to comment on the growth on the months within a quarter. I would not like to generally go in that direction.
- Tejas Shah:** Not that way, sir, because the outlook on the economy, because of liquidity issues also changed materially in the second half of the quarter. And hence, a lot of optimism that a lot of companies had in the first half vanished in the second half. So, from that perspective, are you seeing serious liquidity crunch in the economy or in your channel partners in the second half of the quarter?
- Apurva Parekh:** Really, I think commenting exactly on what is happening now and all generally as a company, we would not like to do that. And also saying how was it in the first half of the quarter and second half, we really cannot comment and give a color on this. As we have already said, we find that overall demand condition has been somewhat challenging. But we are cautiously optimistic that things will improve, and demand will improve. Other than that, we do not have any comments on that.
- Tejas Shah:** Sure. Sir, second, a lot of activity has been seen for a while now, but this quarter it was visible more by Paints Player and Construction Chemicals segment. So are you seeing competitive intensity in our segment also increasing because these players are into remedial side of the business. So, if you can share some observation on the competitive intensity in the segment?
- Apurva Parekh:** As we have shared earlier, paint companies have been active in construction chemical for the last few years. What they have focused on is the use of construction chemical by painters. They have a strong presence in paint channel and also with painters. So, paint companies have largely focused on developing products which painters can use as waterproofing-a waterproof coating or



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a waterproof primer or a waterproof putty. So, a lot of their focus has been in that area and in those segments they have been able to expand market and achieve sales.

- Tejas Shah:** So what percent of the market will be fresh? And what will be the remedial in nature?
- Apurva Parekh:** See, rough estimate, again, without any sort of published or reliable data, we would think two-third of market would be new and one third would be remedial.
- Tejas Shah:** Great. That is helpful, Sir. Thanks, and all the best.
- Moderator:** Thank you. The next question is from the line of Harsh Shah from CGS-CIMB. Please go ahead.
- Amit Purohit:** Hi. Amit Purohit here. On this Consumer Bazaar segment EBIT margin, you indicated there is an intangible income represented. Can you explain on that?
- Apurva Parekh:** So, this was in the last year in the first quarter. What we had done is, Pidilite had a brand of wood finishes called Wudfin, which was a Pidilite' s brand. When we entered a joint venture with this company called ICA, we entered a 50-50 joint venture with ICA and the name of the company is Pidilite ICA, to manufacture and sell premium wood finishes. Once we entered that joint venture, the wood finish brand, Wudfin owned by Pidilite, was transferred to the joint venture. So that was the transfer that we did. The trademark and the related goodwill was transferred to this joint venture to operate from and hence, last year, we had a onetime gain on the sale of that trademark from Pidilite to Pidilite ICA.
- Amit Purohit:** On the overall pricing cuts that you have done, do you want to highlight any specific categories that you have done or is it across the board?
- Apurva Parekh:** We have done the pricing actions in woodworking adhesives and in some of the construction chemical products. So, in some of our major product categories, we have taken some pricing action in the current quarter due to significant reduction in raw material costs.
- Amit Purohit:** And lastly, on the overall outlook, considering that the demand looks to be weak and are we looking at incentivizing trade more going forward versus a pricing action?
- Apurva Parekh:** We are taking some normal initiatives that we can. But if the demand scenario is weak, then the trade actions have limited benefits because then the offtake will not happen. So, you can have some temporary benefit from some incentivization but it all depends on the demand scenario. So, we are cautiously optimistic that the demand scenario will improve and that is why we are not doing anything which is out of ordinary or unusual.
- Amit Purohit:** Okay. Sure. Thank you, Sir.



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- Moderator:** Thank you. We will move onto the next question. That is from the line of Aashish Shah from Tata Capital. Please go ahead.
- Aashish Shah:** Sir, the other expense growth has been lower as compared to the top line growth. So, is there any one-off or it is just because of the cost-cutting initiatives?
- Apurva Parekh:** No, it could be some one-off item last year rather than some cost reduction impact. But I would not look too much into other expenses on a quarter-to-quarter basis. There is always some legal and professional expense or some other onetime assignment or expenses of that nature. It is made up of several expenses. So, I would not look too much into it.
- Aashish Shah:** Fair enough. Sir, on EBITDA, this time, we had a very strong EBITDA partially helped by raw material prices and lower other expenses. So, going forward, do you think there is a further scope for margins to expand? I know Sir that this quarter, the raw material prices have gone down further, and we plan to use some of these benefits to lower prices and for growth initiatives but from here on, is there a scope for margins to improve?
- Apurva Parekh:** See, if you look at our historical numbers, as we have always said, we like to operate in a band of around 22% to 24%. But however, many times when the raw material prices are very low, our margins are higher than 24%. So, there is always a possibility that it can be higher than 24% but it depends on a number of factors including the sales growth and overall material cost scenario. So, it is always possible as it has happened historically. We have to wait and see.
- Aashish Shah:** Fair enough. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir, firstly on the Industrial segment. We have been seeing a steady growth rate in this segment for the last few quarters. Does this suggest that our journey of improving the product mix is more or less done? I mean, we have kind of done the hard work now obviously that will be incremental, but most of that impact on sales growth rate is behind us. Would that be a fair way look at this, Sir?
- Apurva Parekh:** No, I would not say that the journey is over. See industrial products are always evolving and you need to continuously ensure that your products and technologies keep on evolving as customer needs change and also the competitive scenario can change from product category and segments also over a period of time. So, it is something that we watch very closely, and we take various initiatives to continuously upgrade our product mix and customer mix. Having said that, some of the recent high growth, including this quarter has come, our pigment business has done quite well. There is a clear increase in demand. Partially, this could also be for the fact that manufacturing of some of these product categories has reduced in China and there is a greater preference towards India. So, there is a certain benefit because of that as well. But we remain



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consistent in our Industrial business approach that we are focused towards superior product and customer mix. We want to have reasonable margins and a return on capital. So, that is how we operate in this business, but the current trend has been favorable.

Avi Mehta: And would you say this is a reasonable number in terms of the margin that you want to be in or you would think this is still much inferior. How should I look at that, Sir?

Apurva Parekh: No, I would not say that I think we have been comfortable with our industrial product margin. But again, because since we operate in large number of product categories within industrial products- like in the industrial resin, industrial adhesive, leather chemicals, textile chemicals, pigment powder, there is a fairly wide range of products, and hence, product mix can play a significant role. But generally, we are comfortable with the margin in and around this range.

Avi Mehta: Sir, some bookkeeping questions. So, if you could share the ad spend number for the quarter and likely capex for FY20.

Apurva Parekh: So, advertising and sales promotion spend for the quarter was around INR 75 Crores.

Avi Mehta: And, Sir, capex expectation for FY20, what should I assume, Sir?

Apurva Parekh: Capex would be of about 2% to 3%. You can say around 3%. Now in some year, it could be higher if we commission a new manufacturing plant, but you can say somewhat like 3%.

Avi Mehta: One more bit on the tax rate. Sir, you had highlighted 32%-33%, because some tax exemptions. That is what I should assume for the year as well, right, Sir? The tax rate?

Apurva Parekh: Yes.

Avi Mehta: Okay. Perfect Sir. Thank you very much Sir. That is all from my end.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: I have three questions. One is on VAM. We have seen the significant reduction in the VAM prices. Generally, we tend to have some VAM holding. So, would you be able to share what kind of holding we have with a high price? Or is the whole holding at the low price?

Apurva Parekh: I do not have the figure of our current VAM holding. The normal inventory, we will have about one-two months of inventory, possibly. But if you look at the rates, the VAM rates were lower in the last quarter, they have somewhat further reduced. So, we will have a little bit higher inventory than the latest spot prices that is for sure. I do not have the exact quantity of VAM being held right now.



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- Shirish Pardeshi:** Okay. I will take it offline. And the other question, if I look at your Industrial and Consumer & Bazaar growth, somewhat you have highlighted that rural and tier 2-tier 3, you are trying to expand. So, the does distribution reach have a further scope and maybe if you can share what is our coverage in terms of touch points?
- Apurva Parekh:** See, small town and rural is a very large geography and large population, and it is further growing. So, our effort is to have direct distribution in as many towns as we can, and we have been making a steady progress. There is still substantial potential to expand the distribution further, because almost 65% to 70% of Indian population lives in villages with population below 10,000. So that is a very substantial population where direct reach is very difficult and there is a lot of scope for us to grow.
- Shirish Pardeshi:** So, is there a target your sales team has got that you will target only certain number of villages less than 10,000?
- Apurva Parekh:** We have a target, which is every year, to incrementally increase the distribution. So, every year, we make steady progress on distribution. Due to obvious competitive and other reasons, I would not like to spell out the exact number of outlets we are covering, and we plan to do in next year or two. But we have been making and we continue to make efforts to expand our direct reach into smaller population centers.
- Shirish Pardeshi:** So, is there any similarity where you have a common distributor for Consumer & Bazaar and Industrial in the rural town?
- Apurva Parekh:** Yes, in smaller towns, all our distributors are common. Most of them are common. In smaller town, most of our distributors of Consumer & Bazaar products are the same.
- Shirish Pardeshi:** So, is it fair to assume that your growth in Consumer & Bazaar will replicate the similar growth into the industrial and the construction chemicals, in the rural?
- Apurva Parekh:** No. The distributors are common for Consumer & Bazaar that is what I said, so it has nothing to do with Industrial. And having a common distributor does not result into the same growth rate. The growth rate would largely depend on the demand scenario and a number of other factors. Distribution is just a means for us to have a common infrastructure to take our products to smaller town. But the demand scenario in Consumer & Bazaar product is not always the same. So, it depends on the demand scenario as well.
- Shirish Pardeshi:** Got it, Apurva. Just last question. On the raw material basket, VAM is the largest part, which is declining. But is there anything which is inflationary you mentioned, which are the products, or which are the raw materials that are under inflationary zone?



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Apurva Parekh: There are some intermediate products that we use for our pigment business where there has been some increases. There are some polyvinyl alcohol type of products, which have seen some inflationary impact. So, we have a very wide and diverse raw material basket where things like vinyl acetate monomer and acrylates are on a bit of decline. However, there are some chemicals where there has been some increase as well. Polyvinyl alcohol or Carbazole or some of the other raw materials, there has been an increase as well. But overall as a basket, our raw material cost has reduced.

Shirish Pardeshi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Deepak Jain from JM Financial. Please go ahead.

Deepak Jain: Would want to know your NPD pipeline and what is next in innovation basket?

Apurva Parekh: Deepak, we cannot share with what is coming. We have new products, which are planned in almost all product categories and we do it on a continuous basis. But I cannot disclose the new products which are likely to come.

Deepak Jain: Okay.

Moderator: Thank you. The next question is from the line of Aashish Shah from Tata Capital. Please go ahead.

Aashish Shah: Sir, thank you for the opportunity again. So if you can throw some light on the inventory at the dealers? Any such thing which is happening on the ground or is everything normal?

Apurva Parekh: Well, we started by saying there is a challenging demand scenario. If there is a challenging demand scenario, inventory level with the dealers would have gone up a bit. Again, that is not something we can accurately track. It is the inventory at dealer level. We track the inventory at our distributor level which we do on a replenishment basis, so it remains at the same level. So, I do not have a track of the inventory at dealer level. But whenever the demand scenario is challenging, their inventory level would go up a bit.

Aashish Shah: But would it have any impact on our future sales? I mean just thinking out loud.

Apurva Parekh: It would, Aashish, for a very short term if there is some inventory. First of all, they would not increase their inventory too much. In our case, they order the product and if they do not need it, they do not order it. So essentially, inventory level, increase or decrease, can have some impact, but it is not very significant. It is possible that if their inventory level has gone up, they can reduce their purchase by few days. That could happen.

Aashish Shah: Okay. Fair enough. Thank you.



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Moderator: Thank you. Ladies and gentlemen, that was the last question. I will now hand the conference over to Mr.Gaurav Jogani for his closing comments.

Gaurav Jogani: I just would like to thank once again, to everyone for joining the call.

Apurva Parekh: Thank you, everybody, for joining the call. Have a good day.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited to improve readability)