EURO
7000
SYNTHETIC WOOD ADHESIVE

JRAL
JYOTI RESINS & ADHESIVES LTD.

Regd. Office : Survey No. 873, Village : Santej, Tal.: Kalol, Dist.: Gandhinagar. Pin : 382721 **Phone :** (02764) 286327, (M) : 94273 58400
Administrative Office : 1104-1112, ELITE, Nr. Shapath Hexa Opp. Kargil Petrol Pump, Nr. Sola Bridge S.G. Highway, Ahmedabad-380060
Phone : 079-29700574, 40026268, M: 9427320474, **Email :** info@euro7000.com, **CIN:** L24229GJ1993PLC020879

Website :- www.euro7000.com

Date :- 02.06.2023

The Manager,
BSE Limited,
Department of Corporate Services,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001

Script Code: 514448

Sub :- Q4 F.Y. 22 - 23 Post Earnings Conference Call Transcript.

Dear Sir,

With reference to above subject, please find attached herewith Transcript of our Q4 F.Y. 22 - 23 Post Earnings Conference Call on Monday, 29th May, 2023 at 1.00 P.M. IST (13.00 hours).

You are requested to kindly update the same on your website.

Thanking you,

Yours faithfully,
For, JYOTI RESINS & ADHESIVES LTD.

Jain Manish

MANISH SHANTILAL JAIN
Compliance Officer & Company Secretary
(M.No. ACS – 53423)

JYOTI RESINS & ADHESIVES LTD.
AHMEDABAD

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Jyoti Resins and Adhesives LTD

Q4 & FY23

POST RESULT CONFERENCE CALL

Management Team

Utkarsh Patel – Managing Director

Call Coordinator

Strategy & Investor Relations Consulting

Presentation

Vinay Pandit: Good afternoon, ladies and gentlemen. I welcome you all to the Q4 and FY '23 Post Earnings Conference Call of Jyoti Resins and Adhesives Limited. Today from the management we have with us Mr. Utkarsh Patel, part of the Promoter Group and Managing Director of the company.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements and these forward-looking statements may involve risk and uncertainties. Also, this is a reminder that this call is being recorded.

I would now request the management to quickly introduce themselves post, which we will run you through the presentation for the fourth quarter and then take up the floor for Q&A.

Over to you sir.

Utkarsh Patel: Hello everyone. My name is Utkarsh Patel, I'm the Managing Director of Jyoti Resins and Adhesives Limited. Welcome you all.

Vinay Pandit: Sir would you like me to run the investors through the presentation for the quarter?

Utkarsh Patel: Yes, Vinay jee, please go through investor presentation.

Moderator: Sir, is this visible?

Utkarsh Patel: Yeah, it is visible.

Sunil Maloo: Yes, it is visible.

Vinay Pandit: Thank you. So I'll quickly run you through the company background. Jyoti Resins and Adhesives is a manufacturer of synthetic resin adhesives and they sell this product, which is nothing else, but a wide glue under the brand name of Euro 7000, which was started in 2006.

Today, Euro 7000 is the second largest selling wood adhesive in India. The company has gradually increased its capacity over several years. And today the capacity stands at 2,000 tonnes per month or 24,000 tonnes per annum.

This is a quick preview about the journey that we have gone through. So like you can see in 2006, we started the Euro 7000 brand. In 2007, we expanded our capacity to 250 tonnes per month and today we are at 2,000 tonnes per month.

This is our network today. We are present in 13 states with a 300 sales force, 28 branches and 50 distributors. We service 10,000 active retailers and 3 lakh carpenters across these 13 states.

This is our manufacturing facility at Santej in Ahmedabad. This is a single facility that we have where we are manufacturing 2,000 tonnes per month and we have a corporate office at Ahmedabad as well. In terms of our strength and commitment, what has allowed us to grow over the last several years and get to where we are, these are some of the strengths that we have built on. So basically high quality machines, best customer service, quick delivery, strong technical support to our carpenters who is our user base and high quality of raw materials and finished goods that we have been providing them over a long period of time.

These are some financial highlights or key pointers that we would like to bring to your attention. So today the company has an ROE of more than 40%, ROC of more than 50%. We are the second largest brand in India and we've consistently grown in terms of operating profits as well as net profit. We continue to be debt free since FY '18 and today our revenues have touched Rs. 262 crores. We've given a 60% dividend per share, which equates to 15.5% dividend payout for FY '23. Promoters today hold 50.8% as on 31st March 2023.

Mr. Jagdish Patel, the Chairman, is the first generation entrepreneur who started this company in 1994 and Mr. Utkarsh Patel, Managing Director, who joined the company in 2005 after completing his Chemical Engineering and Management courses in the field of Marketing and International Business Management and was key in building up the Euro 7000 brand.

A quick pointer about our business model, so the company imports its raw material through importers from several countries, which are then processed and the finished product is made at Santej. The products are then sold in different packaging sizes from 500 grams up to 70 kgs through a mix of Distributors and Consignee and Sales Agent in the retail market which is primarily dealers. At a team level, we have Zonal Managers, Area Managers, Sales Executives and Business Development Executives.

We also have an efficient carpenter reward model system, which is nothing else but a loyalty program for our carpenters who get points when they purchase any drum, any bucket or any of the packets. We've got a well-established and a customized ERP software to integrate our sales purchases, distributor and ordering systems.

In terms of competitive edge, where are we strong in. So we have a low cost manufacturing facility, therefore our asset turnover today stands at 8x. Our selling and distribution expenses are controlled within 12% to 13% of revenues, while our overall manpower cost is controlled within 15% to 16% of revenues.

We are present in 13 states like we said before, through 50 distributors and 28 branches. Our product portfolio is diversified. We are catering to all the requirements of the carpenters, whether it is anti-termite, waterproof, fast drying, fungal resistance, heat resistance, weatherproof, cold and hot press applications, et cetera.

This is a quick brief about our product categories that are there today. So like you can see, we are providing all the requirements. We are meeting all the requirements of the carpenters as we are also present across all the substrates, whether it is PVC, acrylic, wood or MDF.

These are some of the digital advertisements that we've done recently, which have garnered tremendous views for us. These are some of the recent dealer meets that we have done in Q4 FY '23, which saw tremendous response from carpenters. The recent one that we did was the meet in Mumbai at Sahara Star, which saw 550 dealers present from the MMR region, which include Mumbai, Navi Mumbai, as well as Thane. This kind of shows you the loyalty program that we run with a lot of our carpenters, the kind of rewards that they get.

Quickly highlighting about the performance for this quarter. You would have seen the numbers, but a quick few pointers on the performance. So our gross margin expanded to 57%, which was primarily driven by the sharp drop in the raw material prices.

In terms of volume, we have grown at 27.5% for the year. For the quarter, we have grown at 8% quarter-on-quarter. We are currently operating at 60% capacity utilization. An important point, which I wish to bring your attention to is our operating cash flow.

So, while the operating cash flow on paper doesn't look big enough, when you reconcile it for the change on account of accounting policies, which the accounting is done as per IndAS, the company has generated strong operating cash flows of Rs. 37.7 crores during FY '23 as shown over here.

So what you see the change in non-current financial assets is nothing else, but fixed deposit, which now have maturity above 12 months. And the change in other bank balance is nothing else, but fixed deposit which have maturity between three to 12 months.

And as per accounting standards, FDs up to three months form a part of cash and cash equivalents at the end of the cash flow. So our fixed deposits plus bank balance plus cash and cash equivalents have grown 2x from Rs. 28 crores in FY '22 to Rs. 58.5 crores in FY '23. Our average receivables, which were quite high during COVID times at 266 days and 190 days in 2021 are now down to 109 days in FY '23 versus 117 days in FY '22.

Another important point which I wish to bring your attention to is other financial liabilities, which are the liabilities for expenses with respect to the buyer schemes, which is nothing else, but an accumulation of the dealer/carpenter reward program. This used to be 91% of revenues in FY '21, came down gradually to 46% of revenues in FY '22 and is now down to 32% of revenue in FY '23, and we aim to take it to 25% in the coming years.

Way forward quickly for what are we looking at? So we've completed our capacity expansion. We are now setting up a warehouse for enhancing our storage of raw materials and finished goods. We are looking to expand in one or two new states as well as increasing the penetration and width of coverage in our established as well as other states.

Over the last five years, we have grown at a CAGR of 38% on revenue, 103% on EBITDA, 113% of PAT. We are targeting at least 25% revenue CAGR for the next three years starting FY '23 (as base year). We wish to continue to stay debt free and generate operating cash flows as well as free cash flows and aim to reduce our liability for expenses (as a % of sales).

That's it from my side. Sir, do you wish to add anything on this?

Utkarsh Patel: It is perfectly okay. Thank you, Vinay for the good presentation. So now you can open for the Q&A.

Question-and-Answer Session

Moderator: Sure sir. Anybody else or anybody who wishes to ask a question may kindly use an option to raise hand and ask a question. Yeah, Dhruvesh you can go ahead and ask your question.

Dhruvesh Sanghvi: Sir, can you please explain what you mean by reducing the liability. The point which was the last one on the last slide. Reducing the future liability something I missed the presentation, and I'm just trying to open it here, but I think you met it yes.

Utkarsh Patel: Okay. Actually Vinay jee, it means -- liability means by that reward programs what we have introduced since 2013, '14 around, but before COVID period that was the time that carpenter used to collect most two, three, four years around for the higher slabs. But we have started auto redemptions program for that way we are going to reduce our liabilities.

Vinay Pandit: So Dhruvesh, what happens is just to further answer to that is that whenever any carpenters are -- let's say buying Rs. 100 worth of goods, right, and Rs. 10 is the points accumulated on that purchase, what goes to your revenue is Rs. 90. What goes to your liability for expenses is Rs. 10. And as and when this points are redeemed, this Rs. 10 gets added back to revenue as well as it gets added to your expenses. So it is a profit neutral event, right. But because the company was smaller before in terms of turnover and we had to give away a lot of benefits to carpenters, this liability for expenses or in other words provisions used to be almost 90% of our revenues and these are now down to 35% of our revenues.

Dhruvesh Sanghvi: Okay, fine. Thank you. I'll come back. I think I just had one question on that.

Moderator: Sure. We'll take the next question from Manoj.

Manoj Kumar: Hello, good afternoon.

Utkarsh Patel: Good afternoon, Mano jee.

Manoj Kumar: First of all, big congratulations for the wonderful number Utkarsh jee to you and your team. I have one question. I think in one of the interview you mentioned on the TV that you are going to come with one plant somewhere in Bangalore. So what is the status on that. That is number one. And just connecting to that, you mentioned that currently we are utilizing 60% of the capacity. So does it really make vision to have another plant in Bangalore? Thank you very much. That is the two questions I have.

Utkarsh Patel: Yes, Manoj jee. Right now, we are utilizing our capacity almost 50% to 60%. So it will go maybe one or two years. And that is not the exact plan to that where we are making our new greenfield to South India or maybe we are planning with the existing plant to enhance our capacity. So it will be plan after, I think maybe 1.5 year or two years around. Still we are planning to grow at least to utilize 80% of capacity.

Manoj Kumar: Thank you.

Moderator: Thank you, sir. We'll take the next question from Naysar. Naysar, you can unmute and ask your question.

Naysar Parikh: Well, thanks for taking the question. So, the first question is on the carpenter program that you mentioned. So what percentage of your revenue today would be tied up with this program?

Utkarsh Patel: Naysar jee that I cannot tell you the perfect answer due to the competitive reasons it is a concall and it should be not mentioned, because of due to the competitions information. But I can just give you the brief. There is a different percentage like the growing territory. Right now, we are working in the mature territory the states like Gujarat, Rajasthan, MP, where we are already doing good work product has been established acceptance to the product is very good so in those place our reward program are less and states where we want to grow in those places margins are more .

Naysar Parikh: Understood. No, got it. What I actually meant was not what percentage you give back more, what I meant is what percentage of the revenue actually carpenters are like scanning and they are actually booking on the app that way I meant.

Vinay Pandit: Naysar, we'll not be able to give you the exact percentages that are given out to carpenters. That is like Utkarsh said that iscompetitive information.

Naysar Parikh: Okay, fine. Got it. And second question was on market share, can you give a sense of the market share, what would be the market share in your mature markets like Gujarat, Rajasthan and other markets?

Utkarsh Patel: If I'll give you the total brief for the Pan India, so it is more than Rs. 5,000 crore market per annum. And as you know, we are present in 13 states and we are doing good business with this almost 75% to 80% of our revenue from our five states that are mature states. So that are the Gujarat, Rajasthan, MP, Maharashtra, and Karnataka and remaining 20% to 25%, we are doing that seven states, other states. So if I can give you the brief, Gujarat is our very well developed, well mature state. So we are doing almost 30%, 35% market shares in Gujarat.

Naysar Parikh: Got it, got it. And overall in your mature markets put together any sense what would be the market share in all five put together?

Utkarsh Patel: It varies state wise. As I told that in Gujarat, we are having 30%, 35% market share. In Rajasthan that ratio around is 30% and for the Maharashtra we are 20% around, Karnataka we are 15% to 20% around. So still there is a huge gap between the first player and the second player, as you know. So we are very optimistic to cover this market and do the more penetration with these markets.

Naysar Parikh: Got it, sir. And one last question on Gujarat and Rajasthan, right where you are doing well 30%, 35% versus the leader like what do you think has enabled you to penetrate it to that 30%? Is it that carpenter network that has worked or in your view, or is there a lower pricing that helps in those markets? What do you think has enabled you to get there versus competition, which is obviously much larger?

Utkarsh Patel: I believe what we have achieved since 16 years. That is I mainly point out these two reasons. That is first one is focus and the second one is culture. My belief system is if we focus in particular segment, particular product and particular area, that is definitely give the good result rather than we diversify our focus and not only the carpenters key more discounts or credit systems works together, but it is all about the quality first, the service, what we are offering to our retailers, our carpenters. So there are so many power points that we have achieve this journey since the 16 years. That is not the only discount systems that works.

Naysar Parikh: Understood, that is -- maybe if I could squeeze in the one last one for next year, for maybe one year or three years out, what kind of revenue growth and what kind of margins you're looking at?

Utkarsh Patel: We are planning to grow with 25% of growth volume base and margin we are comfortable with 22% to 23% of EBITDA margin.

Naysar Parikh: Got it sir. Thank you so much. Thanks sir.

Utkarsh Patel: Thank you.

Moderator: Thanks, Naysar. We'll take the next question from Mustafa. Looks like his line got disconnected. We'll take the next question from Manoj Kumar.

Mustafa Haveliwala: Hello, am I audible?

Moderator: Yeah.

Mustafa Haveliwala: Okay, sorry about that. I think I was on mute. So I had just few questions like what extent of our raw material costs are like linked to crude prices? Is this one of the reasons why we are getting this high level of margins?

Utkarsh Patel: Actually our raw materials are not the derivatives of the crude directly. But yes, that impacts the international market and the dollar price also. But due to this COVID and these transportations and all the things the VAM price, the chemical raw material prices were very high last 1.5 year, two years. So at that time we played with the margins also.

But right now the raw material price has come down very sharply. So yes, that is one of the reason that we are gaining good margin. And also the second reason is that we have now established, as I told our five mature states what we are. The product are very accepted well in the markets. Now we have the repeat customers, the Euro pan customers, carpenters so there are the margins because of that also.

Mustafa Haveliwala: Thanks, Utkarsh. One question which I had was regarding the sequential growth like on quarter-on-quarter. I see that your sales has declined, a little decline on the sales. At the same time, you have pointed in the presentation that the volume has increased like in the earlier presentation you were talking about that there was a 55% to 60% like capacity utilization. Now we are talking about 60%. And so does this mean that the realization has decline? And even on top of that, we still are seeing some abnormal margins, which if I could say this. So what is happening here, if you could just quantify this for us that would be great?

Utkarsh Patel: Sure. Vinay, can you please answer this question, so it will be more clearer.

Vinay Pandit: So we say that 8% is our volume growth for the quarter, quarter-on-quarter. And what happens is what I also explained initially is that whenever there are points getting created, it gets reduced from your revenue. And whenever there are points getting redeemed, it gets added back to your revenue.

So the revenue that you actually see is the net of this point redemption versus point creation, right. But if you were to look on an absolute growth, we have grown on an absolute basis at 8% quarter-on-quarter, and if we talk about YoY, it would be almost 20%.

Mustafa Haveliwala: Okay, thanks.

Utkarsh Patel: Because of the lower redemption in March, Vinay, I think that is also a fact that.

Vinay Pandit: Correct. So they want more redemption. So there is lesser amount going to the other expenditure, right. That is why the margin looks inflated a bit. So realistically…

Utkarsh Patel: The carpenters migrate to their native places in March and early duration. So all the UP and Rajasthan carpenters go out to their native place. So there are some less redemption at that time.

Mustafa Haveliwala: Okay, got it. And one last question is about this inventory days and mostly on the inventory days and receivable side. So we are talking about building up a warehouse factory, how this would help us gain momentum on the cash flow front, especially on maintaining inventories or maintaining our receivables. Because I see a large part of our balance sheet at the moment is stuck in the TRs and what are the steps, which the management is looking for or thinking about to get this sorted in the upcoming quarters?

Utkarsh Patel: Sure. Vinay, please go ahead for this question.

Vinay Pandit: (Sunil) Maloo, do you want to answer this? Maloo is there a financial advisor. Sunil Maloo?

Sunil Maloo: Yes sir. So as you have rightly pointed out that inventory days and the debtors days. So debtors day at present, as Vinay jee stated in the presentation stands around 107 days of the turnover. And we are as regarding our point of inventory, companies capable of having improving the inventory days because of the high liquidity and high cash flow available with the company. If you see the balance sheet and financial of the company, we are having Rs. 58 crores of liquid funds parked in the FDs and all that. So if the company procure some big warehouse and all that, so we'd be able to store and have more level of inventory.

So company is having sufficient cash flow, sufficient liquidity to cover both the points of inventory as well as debtors. And despite high debtors days, still our current ratio is above the benchmark of 1.33. So liquidity portion of the company is quite better despite giving high days to the customers and this scheme and this strategy of the company resulting into the higher revenue quarter-by-quarter.

Vinay Pandit: Mustafa, just to kind of summarize, like we said in our presentation, our debtors have come down drastically, right as our revenues have grown. So our working capital has only gotten more efficient over the last three years.

Mustafa Haveliwala: Okay, got it. Thanks for answering and good luck for the future.

Utkarsh Patel: Thank you.

Moderator: Thank you. We'll take the next question from Manoj. Manoj Kumar Natholia.

Manoj Kumar: Utkarsh jee, I have two things to say first thing which while I appreciated the wonderful job that you and your team has done. I'm bit disappointed the kind of error that we made by reporting this result for the Q4 of FY '23. The company like ours is not expected to make such error. But nevertheless, that has disappointed me. So I thought that I must express my feeling? That is one thing.

Utkarsh Patel: No, no, you are very right, Manoj jee and I agree with that. But unfortunately, that happened. But I'm assure you that will not happen again. And we are moving with good auditors and good advisors around us. So that will give more impact in future. I assure you.

Manoj Kumar: I appreciate, Utkarsh jee. Look at the different way when such kind of error happens, it shakes our confidence in the organization. Nevertheless, I thought that I must express so I'm doing that with the best of regard and respect. My second point here is…

Utkarsh Patel: Manoj jee I would like to clarify one thing you are very right as an investor point of view but one thing is in my sixteen year my full focus has been in making business customers and employees but going forward will focus on our investors as well and definitely we'll have the good people around us with these financials and Auditors. I assure you that.

Manoj Kumar: Thank you very much. I know you personally, so I'm sure that when you make this statement, you will certainly make sure that that is going to happen.

Two things as we grow, today, when we say that we have at number two the gap between number one and number two in the product category or this, let us talk to our number one competitor. Between both of us, the gap in the market cap is huge. I think that we have huge, huge potential to bridge that gap. So we have -- I feel somewhere we have to be more aggressive. I'm not saying that we are not aggressive, but if we have two the number two is just 2% or 3% of the market cap of the competitor set well at least we should target to be at number at least 10% of that what they have, our competitor I'm referring to, I don't want to name them. So somewhere I think that we have capacity, we have enough cash liquidity, so we have to go aggressively in the market.

When I say aggressively, that means we have just presence in 13 states so far, the entire nation is available for us. I don't know why we are going so slow.

Only one thing, the last point when you said that we are going to target another two states very shortly. So which would be these two states? And now you can answer all my point. Thank you very much Utkarsh jee once again.

Utkarsh Patel: Sure. Manoj jee, as you are saying that we are so slow I would like to correct if you see Pidilite have a journey of sixty-five years. So it's a very tough market to penetrate and to cover this network. Definitely there will be a very good strong network around that. But as you see, we are growing with the 30%, 35% of CAGR and volume growth also. So yes, of course we are planning to penetrate more with the seven states and you will see a good top line within the next three years. Definitely.

Manoj Kumar: Sir, which are going to be two states where we are targeting to enter into being the new state?

Utkarsh Patel: There are a few states that are remaining to cover. In South India if I talk about, the Chennai is there, Kerala is there, if we'll go for the north, the UP is there, Delhi is there. But when we get the good channel partner around this network, we'll definitely go for the new states.

Manoj Kumar: Thank you, Utkarsh.

Utkarsh Patel: Yeah. But right now we are focusing more with these existing 13 states to penetrate more and establish more.

Manoj Kumar: Thank you. Wish you all the best Utkarsh jee.

Utkarsh Patel: Thank you.

Moderator: Thank you. We'll take the next question from Agastya. Agastya, you can go ahead and ask your question.

Agastya Dave: Thank you, Vinay. Thank you, Utkarsh jee. Utkarsh jee I agree with what Manoj jee said but still I hope you ensure that such errors wont repeat in future result was good but there is so confusion relating to numbers it will be good if it doesn’t happens again. Utkarsh jee clearly quarter was good and all the adjustment which you have put in your presentation if we consider those adjustment than the volume growth was quite good and margins were good as well. So my question is that raw material price have fallen quite a bit so does that mean the market leader have started taking price cuts aggressively or the small market player have started taking price cuts what are the different product pricing you are seeing in different market and to what extend are you following it.

Utkarsh Patel: Pidilite has not reduced the price, but they have started to pass on the good margins to dealers, of course, because the gap is very good. And yes, of course, we have also started and see in my strategy, my view we are never going to lose our customers in any way. This hasn't been my strategy and never will be where I will keep talking about margins and net profit definitely customers first. So we are totally focused with all the territories, all the movements with that and definitely we'll grow with the good revenue going forward as well and will penetrate more will look at customers satisfactions as well. So where we feel around 2%, 3% of margin we are also passing to the customers right now in queue.

Agastya Dave: Utkarsh Jee the price of raw material which you have has it reached at per covid levels or is it more than that.

Utkarsh Patel: It is more than that like almost 10% around otherwise it has reached pre covid level.

Agastya Dave: That means it as reached around as much as two years of inflation and not more. Sir one more question is that you have show a good volume growth can you break it down as you have been adding new geographies so your mature market specially Gujrat and Maharashtra. In Gujrat you have 30-35% market share so how much is it growing if you look at individual district share like Ahmedabad or Mumbai so how much is it growing for you which were your old market

Utkarsh Patel: Actually existing states are growing well because of acceptance of product and the efforts which were taken in networks are showing the results and definitely the existing mature states are showing good results and other states where we are focusing to develop even there product acceptability has started to show and we are expecting a good result from all of this.

Agastya Dave: Sir in Gujrat and Maharashtra which are your old states so in those rural areas and in tier 2 and tier 3 do you have a good presence or is it left for you.

Utkarsh Patel: No we already have presence in Gujrat tier 2 tier 3 villages we have our presence.

Agastya Dave: And in Maharashtra?

Utkarsh Patel: Even in Maharashtra also if you see if I give you a brief Satara Sangli Nagpur Solapur so in all these places were present for more than 4-5 years.

Agastya Dave: That means full Vidharbha because Maharashtra is a big state so do you have presence everywhere in Vidharbha.

Utkarsh Patel: Yes Akola, Amravati, Nagpur, Jalgaon everywhere.

Agastya Dave: Sir I have request from you and Vinay jee if you see small FMCG companies provide with the data of how many pin codes they are serving so if you can also provide such data like how are you growing pin code wise quarter after quarter so it would be interesting to see how your distribution network is growing if it is possible for you sir to share then please share it in your next presentation. Final questions relating to margins you have reported 30-31% margins and now your are saying you are increasing dealers commissions you and pidilite both and going forward the guidance which you have given that 23-24% so if we consider 23% than it is more than your historical margin but going forward it is less so are we going to see and immediate drop or you are just saying it is your comfort level or long term sustainable can we see 30% for some more time or 27% how long will the elevated levels continue according to you.

Utkarsh Patel: See for the Q4, as I already explained that due to migrations there were less redemptions and that is the reasons you are seeing this high ratio we are very comfortable with this 22% to 23% of EBITDA margin, right? Because I don't want to do like I said regarding strategy because of the greed of 25% EBITDA margin I don’t want to compromise in topline where we lose some customers market share that’s never going to be the strategy.

Agastya Dave: So the questions regarding adjustment of redemption are these because of IndAS because if you see first annual report there weren’t such type of adjustments can you clarify.

Sunil Maloo: I will answer this to Agastya sir. This is basically because of the IndAS application only, because IndAS provides that first you identify your gross turnover, which is the value of invoices for the period. And then you reduce it with the value of the promotional schemes that we are providing for the period. And at the same time, whatever redemptions against the schemes that you got in that period, you need to add it back to the turnover.

Agastya Dave: Right, at the time of redemption.

Sunil Maloo: Yes. So basically the concept is that the price that you are charging from customer consists of two things. First is the product that you are selling as well as the promotional schemes, which you are giving to them. So the revenue or the turnover of the promotional scheme will be counted in your turnover only in the period of redemptions. For time being in the year of giving, you reduce it and once the customer actually redeems it and you give it to customer, then you consider it as your turnover. So that's exactly the requirement of IndAS is that and all the industry also following this in FMCG market.

Agastya Dave: Okay. So for you, it is a very high number because of the growth, because you're growing faster than the -- not only in the category, but also in the FMCG market. Is that the reason why this number is so like pronounced?

Sunil Maloo: Yes, that is one reason. And another reason is that there may be some difference in the figures of the promotional schemes for the period and the figures that we got for the redemption for the period.

Agastya Dave: Right, right.

Vinay Pandit: That's why this number looks bigger, because our turnover was smaller. But if you notice in the last two, three years, this number on an absolute basis has only gone down, right?

Agastya Dave: Yeah. Constant or down. Correct.

Vinay Pandit: Constant or down, right. One part is that our revenue has grown and we have not allowed this number to balloon, which is a clear indication of accelerated redemption that we have taken up with our dealers and carpenters. So we will ensure that this number doesn't balloon and doesn't go up and doesn't trouble our balance sheet and does not give any shocks to shareholders.

Agastya Dave: Right. And this is completely PAT neutral.

Utkarsh Patel: Yes.

Agastya Dave: Great. Thank you very much, sir. Thank you, Utkarsh jee, Utkarsh jee just see if you could add the pin code data in investors presentation, but looks like very good quarter sir. And all the best sir. All the best for the coming quarters sir. Thank you.

Utkarsh Patel: Thank you very much sir.

Moderator: Thanks, Agastya. We'll take the next question from Umesh Gupta.

Umesh Gupta: Yeah, hi. My question was actually on this promotional scheme only. But what I want to understand, while you said that it is back neutral, but what delta does it have on margins? So is it around 10% on EBITDA margins on an average? And that is why your margins were so high in this quarter. And which is why probably you believe that the long-term margins from the business are only about 22%, 23%. Because how does the accounting work?

So you sell about Rs. 100 goods of work, and then you account only for Rs 90. So that much of delta is there in terms of margins?

Vinay Pandit: Yes. So the guidance that we are giving 23% to 24% is adjusted for this, assuming that this does not have to play, we'll be looking at 23% to 24% EBITDA margins.

Umesh Gupta: But then it would fluctuate on quarterly basis, right. Depending on the redemption and depending on the sales. Because if you have high sales growth, then you would continue to accumulate higher points?

Vinay Pandit: Our effort is to ensure that it stays neutral in terms of any impact on sales.

Umesh Gupta: Okay. And secondly, you mentioned that you had 8% volume growth in Q4 versus Q3, while your top-line were same. And while one point is about this point thing, but on overall realization, were they flat on Q-on-Q basis or were they down on a Q-on-Q basis?

Vinay Pandit: Q-on-Q was flat.

Umesh Gupta: So despite the fall, almost about 40%, 50% fall in raw material prices, because if you look at the VAM prices on a YoY basis, I think they're down by more than 50%. There was no impact on realization.

Vinay Pandit: That's correct. But the fall in raw material prices, if you assume the packaging cost, et cetera, on an annualized basis is not that high. On a year-on-year basis, it would be around just give me a second. It would be around 30%.

Umesh Gupta: 30% you're saying overall all cost down, but VAM alone would have been down more than 50%?

Vinay Pandit: VAM from its peak is down more than 50%. But then VAM has other things like packaging cost, et cetera involved. And then there are other raw materials also that get used. So if you just look at overall raw material per kg that is down 30% YoY. But on an absolute basis, VAM from its peak is down 50%.

Umesh Gupta: Okay, so going forward to understand your guidance a little bit clearly the 25% CAGR guidance that you're given for the next three years and since the realizations are flat. So despite these pluses and minuses from this point redemption, your top-line at least in sales terms should grow at 25%. Because why I'm asking is that despite in the last quarter 8% of volume growth, your top-line did not grow. So when you are giving a 25% CAGR guidance, will it translate into a 25% sales revenue guidance also? Or you are right now only talking about in terms of volumes?

Vinay Pandit: Either way it would be similar almost.

Umesh Gupta: It would be similar, but it wasn't similar in the last quarter. So this is why I was just trying to clarify this?

Vinay Pandit: See what happens is, so I'll just give you this figure if Utkarsh jee allows me, can I share the net redemption impact on revenue in Q4?

Utkarsh Patel: Okay, sure. No worries.

Vinay Pandit: So the net redemption impact on revenue in Q4 was Rs. 5 crores.

Umesh Gupta: Rs. 5 crores.

Vinay Pandit: Yeah, so which means the actual gross sales if I don't take the impact of redemption in Q4 was Rs. 70.5 crores.

Umesh Gupta: Okay. And when you say you have a 31% of liabilities on the balance sheet, so these are based on last year revenue number, which was about Rs. 245 crore?

Vinay Pandit: **C**urrently it is Rs. 83 crores on Rs. 260 crores.

Umesh Gupta: Yeah, 30% right or slightly more than 30% you're saying Rs. 80 crore on a turnover of Rs. 260 crore?

Vinay Pandit: Yeah, yeah, 32%. Rs. 80 crores, Rs. 83 odd crores is what it is, currently on Rs. 260 crores. So that's the number we are talking about what it is presently and our aim is to bring it down to 25%.

Umesh Gupta: Okay, thank you.

Moderator: Thanks, Umesh. Mustafa, do you have a follow-up question?

Mustafa Haveliwala: Yes, sure. Sir wanted some qualitative comments I have seen in market in carpenter colony in tier 2 cities your product are sold like butter some are even ahead or Fevicol and other but it still continues sell So I just wanted to understand like what are the things which you are doing right is it your product or are you playing with prices which is right to win, but how do you see like competitive wise I see not just Astral, a lot of different brands like. So how well do you think that you can compete with them or what right to win does your product have.

Utkarsh Patel: Sure. See I already told earlier I believe in two things first is focus and second is the strategies, right? So if you talk about service and strategies both carpenters and the retailers where we have our transparent policies and our commitments which we fulfill and about the quality we have always at par technologies with the quality or this is all about all the efforts together.

Mustafa Haveliwala: Are you saying that you are in such product segments where competitors are not there or in such categories where you are present and they are not and that is why you are able to growth.

Utkarsh Patel: Yes.

Mustafa Haveliwala: Okay, got it.

Utkarsh Patel: This is the one reason point out. We have some products that are premium categories products. We have ultra fine one product. So we are very good with this redemptions program. We are very good with these services, what we are offering, we are very committed to that. So this is all about that we believe customer first. Our customer first and to keep customer first I have to keep employee first and we are very focused with that segment also.

So these are the reasons and the companies you are talking about are already construction materials companies, Astral you are talking about or Asian Paints, they are coming with wide glue adhesives. So they came with I think in 2015, '16 around Asian Paints came with their products in 2016. So it is already six years past and they have not penetrated so much what Euro has established as a bottom level. Otherwise, I think they are good with primary sales only, not repeat sales.

Mustafa Haveliwala: And do you see growth on industry level like you said 5000cr market cap do see the growth.

Utkarsh Patel: But as you can see, India is going through migration phase from last 10-15 years where all the villages and cities flats, residentials and commercials. So there is still a long journey 80% population in India are still in villages they are moving to cities. So infrastructure level wise I see next 20 years very big.

Mustafa Haveliwala: Okay. Thank you, sir. Great to hear that. All the best for the future.

Utkarsh Patel: Thank you.

Moderator: Thanks Mustafa. We'll take the next question from Chethan. Chethan, you can unmute and ask your question.

Chethan Dhruva: Thanks, Vinay. Thanks for the opportunity. Thank you, Mr. Utkarsh. So I think I come back to that point of margins. I just want to clarify one thing with you, Mr. Utkarsh, so when you said that you are happy with the 23% margin, should I read it as a statement of imminence that it is going to come down to 23% or you just saying that if the situation comes where you need to trade off margins for growth, you'd rather go down to up to 23%, but still grow at your 30%, 35% or 25%, your target growth rates? How should I interpret that?

Vinay Pandit: One thing, if you take that Rs. 5 crores impact that I just spoke about, if you were to add that to other expense, your EBITDA margin for this quarter would have been 23%.

Chethan Dhruva: Hello, Vinay. I think we lost you. Mr. Utkarsh, are you able to hear us?

Utkarsh Patel: Yes, I'm able to.

Vinay Pandit: Chethan, can you hear me?

Chethan Dhruva: I lost you completely. Sorry, Vinay.

Vinay Pandit: Okay, okay. I was saying the Rs. 5 crores, the negative Rs. 5 crores impact that we spoke about, if you were to add that to other expenses, the EBITDA margin would actually come to around 23%, 23.5%.

Chethan Dhruva: Okay, okay. I thought that this was an impact on your top-line, right?

Vinay Pandit: No. See, what happens is when it is a redemption, so let's say there was short redemption by Rs. 5 crores. If that Rs. 5 crores would have come in. Additionally, it would have allowed my revenue to remain where it is, right, which is Rs. 70.5 crores. And that Rs. 5 crores would have also gone to my expenses. So effective margin would have been around 23.5%, the real margin, which currently looks inflated at 30.8%.

Chethan Dhruva: Okay, okay.

Vinay Pandit: And even after 30.8%, if you see the full-year margin is at around 23%, which is what we are guiding, that we'll be in that 23% to 24% range in terms of EBITDA margins.

Chethan Dhruva: Okay. Now, I did a math and I found that would be slightly higher. See, your revenue would have gone to Rs. 70 crore, correct?

Vinay Pandit: Correct.

Chethan Dhruva: And your expenses would have gone to around Rs. 50 crores. So effective, EBITDA margin would have come to around 28.5% what I see, because expenses were at 45 to 50, 65 to 70.

Vinay Pandit: And your full-year average would have been 22.7%.

Chethan Dhruva: Okay. So you're saying that the average is what needs to be. So now, if I look at a quarterly perspective, my question basically is just 28%. I understand Mr. Utkarsh's position that he wants to target revenue growth and doesn't mind margins going down to 23%. That's how I interpret this statement. Is that a correct way to do it, Vinay? My point is…

Utkarsh Patel: I think it is the correct way. Because to retain the customer is more important, if no competition is there. And it should be transparent also, what I believe not for the competition also, see what Pidilite has taken the step, it is necessary. Because right now the raw materials are down and already the price high. So it is transparent way and it is a cultural way that to build the trust for the customers. So it is there. Even if pidilite wouldn't have done it we would surely have done it.

Chethan Dhruva: Okay, so this has already happened, is what you're saying?

Utkarsh Patel: Yes, it has started.

Chethan Dhruva: It has started, okay but it has not yet reached the point where we need to look at it go to 23%, right. The truth may be somewhere in between for this year.

Utkarsh Patel: Probably, yes.

Chethan Dhruva: Okay, I understand. So thank you, Mr. Utkarsh. Thank you, Vinay.

Utkarsh Patel: Thank you.

Moderator: Thanks Chethan. Anybody else who wishes to ask a question? Sir, since there are no further questions -- actually we have a follow-up question from Agastya Dave.

Agastya Dave: Thank you. Thank you very much. Utkarsh jee, I was understanding competitive scenario you don't see anyone against pidilite and then you come in so if we were to look market below you that is aside from you and pidilite how much of it is divided fragmented who all are there and are there any regional player does this market have unorganized sector?

Utkarsh Patel: Unorganized sector in retail is not there and that's why you are not able to see it and the way we have created our reach unorganized regional players were not able to create it. Regional players of particular state, particular cities, but that are not unorganized because it is brand level trust that you create. It's not an easy process to gain that.

Agastya Dave: Utkarsh jee if your brand is good product is good like one participant said and even I have observed this wherever it maybe in Gujrat or In Maharashtra your sales are very strong so no one ever thought that if they want to enter the market they should over take you as your brand is established product is also good at least in the states which your active in are you like willing to, let's say a strategic investment by some competitor in you full sell through, what is the promoter family thought here? If Asian Paints comes to you, are you willing to sell the business to them? Yeah, if they come with a strategic stake offer, what will you do?

Utkarsh Patel: I think as a promoter, I should think about the growth prospective only. Do they have that type of network or not? That should be the most priority things. Because as company grow, as Euro brand grow right, right now we have enough confidence on me and my team also that we'll definitely reach Rs. 500 crores of top-line going forward if we want to take growth step where . We need a professional CEO or any strategic partner. We'll definitely think about that after Rs. 500 crore of top-line. So if we think on strategic level having network growth would be good.

Agastya Dave: Utkarsh jee at what point would you think that yes my distribution is at good level and could think about related product line or some other products in my portfolio I know it too early to think but still at what point will that be .

Utkarsh Patel: see this is our strength this is service-based product rather than the quality-based product, right. Service is very important for example if you see jaguar cera are king in their segment of sanitary or plumbers were right, so it's not easy for any other companies to penetrate and replace that brand. So same like as you said on ground level the way we have built the base for euro is very strong it is good in terms of sales even in our mature states dealer doesn't have to do much of hard work for pushing our product there are already demand for euro at least 30%, 35% market share. I don't think that I have to think about any other products for that. That might not be good for the company as it will divert the focus of the team.

Agastya Dave: one more question like to said in the start of the call about competitive intensity that you haven't lose your customer so how is your dealer churn cycle have you lost any dealer?

Utkarsh Patel: so our retaining ratio in terms of employees dealer and customer is very good.

Agastya Dave: can you disclose that ratio like especially for dealer ratio.

Utkarsh Patel: Percentage ratio I don't have right now.

Agastya Dave: But it is not a problem. It not like that you are suddenly losing any dealer because of competitor.

Utkarsh Patel: Now you need to improve for that. So I take it as a positive way we gather the data of retailer and try to figure out where we couldn't understand solutions we definitely look positive for that parts and trying to improve that part.

Agastya Dave: Thank you, Utkarsh jee. Utkarsh jee, just a final request, if you could keep concall after every quarter that would have been good.

Utkarsh Patel: I also want to interact with you all people, because I get to learn a lot of things, so I definitely try for them every quarter con call.

Agastya Dave: Right sir. Sir please do, sir. It helps to under your focus you're perspective regarding margins and growth. So it was very nice sir.

Utkarsh Patel: so our goal is that we want to take our balance sheet is such a way that Investor would get full transparency.

Agastya Dave: Balance sheet has definitely there is an improvement from last year comparison especially in COVID year I understand there was a negative cash flow that is understandable. This year there is definite improvement in balance sheet. So great work, sir. I hope FY '24 may you meet all your targets. All the best. Thank you. I'm done, sir, Vinay bhai. Thank you.

Moderator: Thanks Agastya. We'll take a question from Saket Saraogi. He's not able to use the option of raise hand. Saket?

Saket Saraogi: Thank you, sir. First of all, congrats for such a good results. And the performance the company has been delivering for last 10 years. I'm a lucky shareholder to be invested in the company for last 10 years. Actually, from 2013 I've invested and somehow I have reaped the benefit.

Actually, I had a question regarding the scheme that company had mentioned in their presentation, like you mentioned that as a percent of revenue it has come down to some 30%. So what is this -- can you explain this like what percentage should actually come back to the idle level, because from long time we see in the balance sheet some financial liabilities big figure is standing. Can you explain this? What is this? And at what percent of the revenue should actually come down to?

Vinay Pandit: So like we said in the initial comments, we aim to bring this to 25% of revenues.

Saket Saraogi: These are actually, actually I was late in joining the call. If you could just brief me regarding this, it will be helpful, if possible?

Vinay Pandit: You want to understand how this works?

Saket Saraogi: Yeah, if possible.

Vinay Pandit: Okay. So basically, when you do Rs. 100 of sales, and let's say there are Rs. 10 of points created, Rs. 90 is what goes to your revenue, right. Now, assuming that a carpenter would redeem Rs. 5 from past points that he's carrying, that Rs. 5 get added to your revenue. So your Rs. 90 becomes Rs. 95. And that Rs. 5 goes to your other expenses or sales and promotion expenses. So your effective revenue then becomes Rs. 95, right.

Now this provision, typically when it gets created, has to be taken to your balance sheet and then removed from there as and when it is redeemed. And this is required as per IndAS, right. So this provision used to be approximately 90% of revenues is now down to 31%, 32% of revenues. And we wish to keep it there or lower on an absolute basis. So effectively, it will come down to 25% of revenues as we move forward.

Saket Saraogi: Sir was there any particular reason for this being so high? Initially, 90%, as you told?

Vinay Pandit: One of the reasons was that it used to get accumulated over a period of five to seven years. We've now started accelerated redemption on that. So we try to ensure that it is redeemed within three years.

Saket Saraogi: Once not redeemed in three years, it lapses?

Vinay Pandit: No, it will not lapse. It will be auto redeemed. Utkarsh jee, am I correct?

Saket Saraogi: Also one more question. Yeah.

Utkarsh Patel: See Mr. Saket, sorry Vinay jee, I just want to clarify one thing to Mr. Saket. See, we don't want to give any signal to our carpenters that the company is not so transparent or not supportive. So we have not give them any line to redeem deadline we want to make our loyalty program attractive we make sure that our carpenter feels comfortable so that they can redeem that whenever they want . But right now we have introduced a program for the auto redemptions. We have the team of people who are managing these things and to motivate the carpenters to take the redemption with slabs, so it will be neutral positions we are trying to manage. So that going forward it won't affect topline.

Saket Saraogi: Sir, the program that we run that kind of similar program would be run by competitors also. Like it's a standard industry process, I think so.

Utkarsh Patel: It's not standard industry process. We can say the program loyalty programs run by so many companies, not only they use FMCG's products or that, but the thing how you are maintaining these and what service you are giving, the implementations of the program is very important. So we differentiate ourselves in that particular rather than the other competitors.

Saket Saraogi: Like from last quite some time, since the company has been given the presentation. So you mentioned that you have 3 lakh carpenters enrolled for this program. But I've not seen the number growing. So is there any particular reason for that?

Utkarsh Patel: No, we are totally associated with the 3 lakhs carpenters thoroughly these 12 states. But what we are trying that more and more carpenters join our loyalty programs and at least scan the points. So the scan points means use our products. So it's not like that we are not growing in that. But also as you know that we have not started new states. Whenever we start new states, definitely more carpenters will join us. So right now we are focusing with the productivity of that existing program. Where we already have registration for the program. We are more focusing on that part.

Saket Saraogi: And sir regarding the debtors, what kind of percentage is the desirable level of debtors we should be looking forward like as of now, the percentage of debtor is quite high. It has reduced from early times. But what is the desirable level of debtor day the company is looking at?

Vinay Pandit: I think our current levels is what we would be able to maintain. And just one point I would like to clarify that. I was just saying before, the provisions or the liabilities for expenses that have accumulated have gone down as a percentage of sales. But doesn't mean that there is no fresh accumulation and accelerated redemption happening. So both of them are happening. We've been able to keep it in control.

Saket Saraogi: Okay. Thank you so much and best of luck for the future, sir.

Utkarsh Patel: Thank you.

Moderator: We'll take the last question for the day from Naysar Parikh. Naysar?

Naysar Parikh: Thanks. Just the follow-up. I want to understand from a product perspective, right, whatever is our equivalent of Fevicol, what percentage is that and what percentages are some kind of special application products or things like that?

Utkarsh Patel: We have hire some technologies for the -- we have two products that one is ultra final one that is weatherproof, waterproof categories. So that category differentiate us from the Pidilite and one fast drying product is also there.

Naysar Parikh: I want to understand if you could tell us what percentage of revenue it is? Like what percentage of revenue would be your regular base products and what percentage of revenue would be some of these specialty or special purpose?

Utkarsh Patel: I can't answer this question, sorry, Naysar jee the details. Because maybe it is a competitive information sometimes.

Naysar Parikh: Okay, got it. And lastly, just in terms of your distribution, right, do you send everything to end retailers? That's how you sell or do you have certain percentage you sell directly to some builders, directly to some large distributors or stockists?

Utkarsh Patel: Retailers only.

Naysar Parikh: It's all 100% retailers?

Utkarsh Patel: Retailers, we have industrial product also. We introduced it before one year, but that is hardly 2% of revenue. So it is 98% we can say for the retailer. So we want to focus more into Retail segment only.

Naysar Parikh: Got it. And last like are there any new products or new segments that you're planning to target? So Pidilite has some of these stationary consumer facing ranges. And they're also trying to do some specialty or value-add products. So are there newer segments, newer products that you are planning?

Utkarsh Patel: No, as of now, as I mentioned that still so many percentage of market share is still remaining to achieve with this existing network what we have established. So we want to focus more on that only.

Naysar Parikh: Okay, understood. Got it. Thank you. Thank you so much.

Utkarsh Patel: Thank you.

Moderator: Thanks, Naysar. Sir, before we end this call, would you like to give some closing comments in terms of what are you seeing for the next three, five years?

Utkarsh Patel: I think I already explaining this, all the questions, what our vision is that. And if you want to clarify more Vinay jee, you can go ahead further.

Vinay Pandit: No, sir. Perfect.

Utkarsh Patel: All right. Keep invested.

Vinay Pandit: Thank you so much to all the participants for joining on this call. And thank you to the management for giving us their time. Thank you, sir.

Utkarsh Patel: Thank you.