

February 11, 2016

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Exchange Plaza, Plot no. C/1, G Block,  
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Bandra (E),  
Mumbai - 400 051  
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Dear Sir,

**Sub: Transcript of Pidilite Industries Q3 FY 2015-16 Conference Call**  
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Please find attached the transcript of Investor Conference Call organized on 3<sup>rd</sup> February, 2016 post declaration of Financial Results for quarter ended 31<sup>st</sup> December, 2015 for your information and records.

Thanking You,

Yours faithfully,  
**For Pidilite Industries Limited**

  
**Savithri Parekh**  
**Secretary**

Encl : as above

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“Pidilite Industries Q3 FY 2015-16 Results  
Conference Call”

February 03, 2016

**ANALYST: MR. AVI MEHTA – IIFL CAPITAL LIMITED**

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



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**Moderator:** Ladies and gentlemen good day and welcome to the Pidilite Industries Q3 FY2016 results conference call hosted by IIFL 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you and over to you Sir!

**Avi Mehta:** Good evening everyone. On behalf of IIFL, I would like to welcome all of you to the 3Q FY2016 conference call for Pidilite Industries. From the Company we have with us the key senior management including Mr. Apurva Parekh – Executive Director and Mr. Pradeep Jain – Chief Financial Officer. I would now like to handover the call to the management for their openings comments. Over to you Sir!

**Apurva Parekh:** Good evening, everybody. Our net sales for the quarter grew by 9%. This was driven mainly by a 11% growth in the sales of consumer and bazaar products and a 3.1% growth in the sale of industrial products. Material cost as a percentage of sales reduced by 779 basis points mainly on account of lower raw material prices. EBITDA before non-operating income and exceptional items was higher by 52.4% over the same quarter last year. Profit before tax grew by 64.6% and profit after tax grew by 50.1%.

On a consolidated basis, net sales grew by 11.4%. The consolidated net sales growth was a tad bit higher and this was mainly due to the impact of the acquisition done at the start of the year of the Nina water proofing business. Material cost as a percentage of sales was lower by 748-basis points, EBITDA grew by 53%, and profit before tax grew by 66% and profit after tax grew by 50%.

We can take questions now.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



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- Abneesh Roy:** Sir very strong set of numbers. My first question is, are you seeing recovery in the volumes this quarter, it is much better? My sense is it is around 8% to 9% in the domestic volume growth; next quarter should it again come back to that earlier 3%-4% trajectory?
- Apurva Parekh:** I think the volume growth was good this quarter. Volume growth was little higher than the value growth but I would not be able to give any outlook or projection for the next quarter.
- Abneesh Roy:** Sir when you are saying it is higher than the value growth so value growth if you see was around 11%, you are saying volume growth was ahead of this?
- Apurva Parekh:** That is on a consolidated basis. As I explained earlier, the 11.4% also includes the impact of the acquisition that we did at the start of the year and hence I was referring to the standalone growth figure of 8.8%. Volume growth was higher than that at around 10% on a standalone basis.
- Abneesh Roy:** No but how much was it in the consumer bazaar business?
- Apurva Parekh:** May be around 11% because the value growth of consumer and bazaar product was around 10.8% so volume growth was bit higher than that - around 11% to 12%.
- Abneesh Roy:** Sir a key concern last few quarters has been the volume growth tapered off so I understand this quarter growth cannot be taken as a new trend but still it will be interesting to know among the different segment which one has seen a higher recovery which one have seen lower recovery?
- Apurva Parekh:** One thing I would like to say is that some of the volume growth can also be attributed to the shift in Diwali this year. Diwali was a bit later this year and hence volume growth may have been partially impacted due to shift of Diwali and we have seen reasonable volume growth across most of our products.
- Abneesh Roy:** Largely similar across the board?
- Apurva Parekh:** No I would not like to say across the board but I would say that many of our key products saw good volume growth during the quarter.



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- Abneesh Roy:** Sir, similarly if you could elaborate rural versus urban and the south versus north and etc., so the four zones is there anything you want to highlight there?
- Apurva Parekh:** No I would not like to highlight anything. There was nothing, which was out of the ordinary. And we would not like to really share the region-wise growth figures that would compromise our market position, so we would not like to share that.
- Abneesh Roy:** I understand you do not share this. Why I am asking this is in terms of south we did see the floods in Chennai and some of the other parts of Tamil Nadu does that have much of an impact?
- Apurva Parekh:** No I don't think it has much of an impact, not in our industry.
- Abneesh Roy:** Sir the industrial part of the business has seen recovery in terms of growth so there also is it largely again festive related and margins has not improved quarter-on-quarter so does it mean we have seen the peak margin in industrials it has improved in the past few quarters but quarter-on-quarter there was no improvement in the margins?
- Apurva Parekh:** One is that in the industrial products category, value growth was only 3%, volume growth was again higher than that. Second, on margins, I cannot say whether we have peaked or not but we have had fairly strong expansion of margin in both the last quarter and the current quarter but whether it can go up or down would also depend on the raw material prices and domestic and export economies.
- Abneesh Roy:** Sir one follow-up to my earlier question, Sir in the previous con call Q2 you had mentioned some price adjustments were taken the protect market share if you could tell us has there been price cut across the board and have the price adjustments gone more and has there been a blanket price cut in your consumer bazaar portfolio?
- Apurva Parekh:** No as I maintained last time, we have done some price adjustments depending on the need of various businesses and we have not done any across-the-board kind of price adjustment but we have done price adjustment as and when necessary in a judicious manner.
- Abneesh Roy:** Sir thanks for this. I will come back in the queue. Thank you.



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- Moderator:** Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** Thanks for the opportunity. My question is regarding say discounts and promotions so where they in line with the last festive season or was it lower or higher?
- Apurva Parekh:** There was no significant change from last year except, as we discussed earlier, in some products we had given a little bit higher discounts due to low raw material prices.
- Anshuman Atri:** Another question in terms of demand are we seeing any improvement in terms of some trajectory positive in different segments say industrial as well as consumer?
- Apurva Parekh:** This quarter growth is significantly better than the second quarter so to that extent we are seeing some improvement but it is too early to say whether this is a lasting improvement so we would still like to wait for a quarter or two to see whether this improvement is lasting.
- Anshuman Atri:** Lastly in terms of say unorganized are they passing on most of these benefits leading to more competition or is it that most of the players are holding on to the margins?
- Apurva Parekh:** I think various companies have different pricing and discounting policies and we are not seeing any significant change in the competition intensity.
- Anshuman Atri:** Thank you Sir. Thank you for answering my question.
- Moderator:** Thank you. The next question is from the line of Prasad K from Emkay Global. Please go ahead.
- Prasad K:** Thank you for the opportunity. Sir firstly on the gross margin obviously we have seen gross margin peak further as well if you look at the standalone gross margin, it is almost about 52.3% if you could actually help us understand over here as to what do the outlook going forward here given the fact that there has been a further correction from the previous quarter as well as on the gross margin front?



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- Apurva Parekh:** I think it is possible that in the short-term, we may have high margins or there may even be some further expansion possible depending on how the raw material prices go. However on a medium to long-term basis, these gross margins are high and they may not sustain at such high levels.
- Prasad K:** But otherwise how has the VAM price behavior been?
- Apurva Parekh:** The VAM prices, like a lot of other raw materials, have come down and in between they had increased for a short period of time but otherwise they continue to be soft. Second, obviously the raw material cost also depends on how Rupee performs against the Dollar so due to some depreciation in the Rupee, again, there was some adverse impact on raw material prices but overall the raw material prices including VAM continued to remain soft.
- Prasad K:** So this low base of input cost I guess we have at least couple of more quarters to see assuming the raw materials staying over here?
- Apurva Parekh:** It depends on how the raw material prices remain, how demand conditions remain so it depends on a lot of factors but in short term it appears that that at least at the gross margin level, we will continue to do good gross margin.
- Prasad K:** Secondly, Sir if you actually could just give us some more colour as far as how is been the segment, I do understand that you do not mention on a quantitative basis, but at least in qualitative comments as to how have these segments in the consumer and bazaar segments performed?
- Apurva Parekh:** As I said earlier, a lot of our key products have done reasonably well during this quarter. Several of our key products have done well during the quarter. I cannot really distinguish too much between various segments, most of them have done reasonably better and all of them have done better in the second quarter.
- Prasad K:** You did highlight that the growth is also a function of shift of the festive season as well, if you could just share us some qualitative comments as far as how is December and may be January in the sense in terms of demand, I mean, any improvement in that sense or any change in that sense?



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- Apurva Parekh:** We cannot share anything about January.
- Prasad K:** At least in case of December?
- Apurva Parekh:** We share quarterly results so we would not like to break it up month-wise. That would not be right to do on a call.
- Prasad K:** Just one more last thing Sir; in the last quarter you did highlighted about you are actually exiting few of the lower margin business in both the industrial segment as well as the consumer segment. You just highlighted about the same as well, but if you could just actually help us understand that but if you say right now that our volume growth and my value growth more or less is in line just about a percentage change has there been any further in terms of exit in terms of any lower margin segment going out?
- Apurva Parekh:** Whatever rationalization we did in the first half of the year is all. There has not been any further discontinuation of any major product.
- Prasad K:** Lastly anything on the innovation side, anything, which has started off this particular quarter?
- Apurva Parekh:** This year we introduced several new products during the year. In each of our product segments, we have had some launch or the other during the year. We have had new launches in quick working adhesive, new launches in consumer product and in construction chemicals. But the quarter is too short of a period to review. For the year can give a better idea of products launched during the year or those expanded into new geographies.
- Prasad K:** Thank you Sir and all the very best.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir just wanted to broadly understand how does the company look at pricing in this environment, gross margins going down does the company look at sales growth and those thing to, I mean how did you look at it on a very broad sense because I understand you will not be able to share any price cuts if you are reluctant to take etc., but how would you, what





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would you prioritize sales growth, EBITDA growth, EBTIDA margins, band, if you could give any colour on that Sir?

**Apurva Parekh:** There is no one priority item we track. Overall, all of these factors are important and all of the factors have to be taken into consideration while deciding on any price increase or decrease, so this is something which we need to do on a regular basis and across various products and segments. There is no one simple answer to this question. We like to have a good balance of sales growth, margins and everything else so there is no one simple straight answer that this is the only thing that we prioritize. All of these are very important.

**Avi Mehta:** So let me rephrase it is there any perceptible difference to price cuts in this in demand in this segment or it would not be such a very short change it is not so price elastic would you be able to comment on that Sir?

**Apurva Parekh:** Yes, are you saying that our category is very price elastic?

**Avi Mehta:** Yes Sir.

**Apurva Parekh:** They are not very price elastic. No, our categories are not like that.

**Avi Mehta:** Sir secondly if you on the other expenses bit if I look at the last three quarters on a consolidated basis it seems in the subsidiaries there is a very large change is it attributable to Nina only or is there any one off over there that is coming in and or ad spends could you can clarify that Sir?

**Apurva Parekh:** Nina would have played a larger role. In addition, we had a larger increase in the Middle-East where we have hired some people and we have invested in sales and sales- related expenses as we are building for future sales growth in that region.

**Avi Mehta:** Okay and Sir last the input cost, could you share how, as on end of quarter is it lower than the quarter average or if you could kind of comment on that?



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- Apurva Parekh:** I do not have that exact figure. This also changes a lot depending on whether I give you December and it may not necessarily reflect a quarter because both foreign exchange and the raw material cost fluctuate on a daily basis.
- Avi Mehta:** Okay but your sense would it be lower than the average of the third quarter or it will be in that is what I was trying to get Sir?
- Apurva Parekh:** I would not like to give my sense on this but it remains soft. What I am saying is that it may be little bit here or there but it continues to remain soft and I would not say there is any significant change in the quarter and as compared to the average of the quarter.
- Avi Mehta:** That is all from my side. Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Mehernosh Panthaki from HDFC Securities. Please go ahead.
- Mehernosh Panthaki:** Good evening Sir. First of all congrats on good set of numbers. Sir my question was on Bluecoat Adhesives business which your company had acquired somewhere in September 2014 so as this business been merged with Pidilite or it is a separate subsidiary?
- Apurva Parekh:** This business is part of Pidilite. We had acquired the business not the company and it is a part of standalone results.
- Mehernosh Panthaki:** Okay so just wanted to get a sense on it because the acquisition cost was around 264 Crores which is higher than your average annual capex which you normally incur the routine capex so just wanted to get a sense as to how the brands of Bluecoat have been performing over the last two to three quarters or may be one year and are they growing on similar lines of your Fevicol brand or your adhesives business or they are growing at a faster rate and in which geographies do they have most strength like what was the main rational behind this acquisition, is the company actually benefiting from this acquisition in terms of growth and profits?
- Apurva Parekh:** There are lot of questions there but I will try to give you some general idea. Bluecoat largely operates in the western part of India. It also operates in some other territories in the



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north of India but largely it operates in west of India. In the last nine months, we have working on the integration process of that business. The business is doing well and is growing. In the last quarter, it has done quite well. I would not like to give a comparison with Fevicol in terms of faster or slower but I would say that this business has done well in the last quarter. The business is now fully integrated with Pidilite and basically it was an acquisition to grow our presence in the adhesive business.

**Mehernosh Panthaki:** So Sir there were some question from our clients that is Pidilite witnessing a slowdown in its core Fevicol business or adhesive business that is why this acquisition was done in order to cut the market share and in order to maintain the market share and to improve the growth, I just wanted you to clarify that part?

**Apurva Parekh:** It was to gain distribution and presence in some parts of India.

**Mehernosh Panthaki:** Okay so it is nothing to do with the slowdown in your core business?

**Apurva Parekh:** No it has nothing to do with slowdown in core business.

**Mehernosh Panthaki:** Sir it would be great if you could share are the margins of these brands higher than the margins in your core business of Fevicol?

**Apurva Parekh:** The margins are not the same as Fevicol. They are lower than Fevicol.

**Mehernosh Panthaki:** Sir one last question you told that the VAM prices has actually fallen on Y-o-Y basis during this quarter so can you let us know the level of the VAM prices or average prices what they where during this quarter, in Q2 they were somewhere around 950 to 975 dollars per ton?

**Apurva Parekh:** Yes they were more around \$900 during this quarter.

**Mehernosh Panthaki:** Thanks a lot Sir. That is from my side.

**Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



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- Abneesh Roy:** Sir a few follow up questions. Nina had done 70 Crores in first quarter with a 10% to 15% growth will it be fair to say that the 10% to 15% growth has gone up for Nina also because of the festive season?
- Apurva Parekh:** We will check the figure and tell you. Yes, the growth was marginally higher than the first half of the year.
- Abneesh Roy:** How is profitability in that part of the business?
- Apurva Parekh:** Reasonable profitability. It is a reasonably profitable business. The profitability is not same as the standalone Pidilite profitability, but it is a reasonable profitability.
- Abneesh Roy:** Sir I was asking as that part of the business also seen good margin expansion?
- Apurva Parekh:** No, Abneesh. We are putting together a good growth strategy so it is not that the margins have expanded during this quarter, the margin continue as they were before.
- Abneesh Roy:** But should they expand the consolidation stabilizes, should they expand in case of such a sharp raw material fall?
- Apurva Parekh:** This is a service business. Nina waterproofing is a services business where they take up contracts for executing waterproofing jobs. So they are not as raw material sensitive. They buy raw materials, some from Pidilite, some from other vendors, but their biggest cost element is the service element.
- Abneesh Roy:** Sir, last quarter you had said some lower margin products were phased out. Is that still continuing, so base it was there and this quarter it is not there?
- Apurva Parekh:** Some base impact would be there.
- Abneesh Roy:** So there is some negative impact because of the phase out?
- Apurva Parekh:** You are saying that some sale would be lower because of discontinuation, yes.
- Abneesh Roy:** Excise 0.5% to 1% was the impact last quarter, similar this time?



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- Apurva Parekh:** It has a similar impact, yes.
- Abneesh Roy:** Sir, industrials, we have some recovery this quarter and last quarter it was not good because exports are obviously bad, so what has recovered this quarter? My sense is it must have been the domestic part of the industrial, right?
- Apurva Parekh:** There has been a better recovery in domestic as compared to export, yes.
- Abneesh Roy:** Sir, rural versus urban still rural is growing faster?
- Apurva Parekh:** Yes, but you know, in our case, as you know, a lot of rural is also fed through wholesale. So that sale is captured in urban and not in rural, so like lot of other FMCG categories where there are third-party reports that track the category sale, we do not have that, so some of our rural sale happens through wholesale. I cannot give you an accurate picture, but I can tell you that the rural growth is faster than urban growth for us.
- Abneesh Roy:** But is the gap reducing because the way you have defined this classification, which was there in earlier quarters and base also, but has the gap reduced now the way you define rural versus urban?
- Apurva Parekh:** Rural is growing at a faster pace than urban and that is what we need and that is what we wish to do because obviously rural is a much larger territory and we need to improve our penetration in that.
- Abneesh Roy:** Sir, in Chennai, one Dr. Fixit center was opened last quarter. So what is the plan in terms of how many centers over two to three years you plan to have pan India?
- Apurva Parekh:** We are just reviewing the response to that and we are seeing what is the impact of this on our business overall, on our brand and based on that we will take a decision on opening the next set of experience centers. Most likely, we will open one or two more again, study and then decide it on how many centers we need.
- Abneesh Roy:** Currently how many Sir?



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- Apurva Parekh:** Currently we only have one in Chennai.
- Abneesh Roy:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Priyadarshi from HSBC Securities. Please go ahead.
- Vivek Priyadarshi:** Good evening Sir. I wanted to ask what was the ad and promotion spend for the quarter as a percentage of sales and second followup was with gross margin expanding, do we see a higher allocation to this expense? I mean, would you like to build or spend more on building brands?
- Apurva Parekh:** I would say not for the quarter but advertising and sales promotion spends for the first nine month was higher than last year and yes, we would like to increase our spend on advertising and sales promotion, we will certainly like to increase that spend and we would consider doing that.
- Vivek Priyadarshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** Thank you again. My question is regarding Nina. As you have mentioned that they are using also third party products. So, how much of products have we replaced till now and how is it going to play going forward? Will they switch completely to Pidilite or they will be also using third party products?
- Apurva Parekh:** To answer your second question first, they will use certain third party products, if there is a particular project which demands a product which Pidilite does not have it in its portfolio, it will certainly use third party products. So that is certainly possible. As of now, this business is very new in our hands, it is in process of integration and it is also already executing projects, which were taken over before our acquisition. So there has been no significant shift in terms of their usage of products, but they are now working very closely with Pidilite to get certain products of Pidilite specified and used in various projects. So work in that



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area is taking place, but this is a longer gestation period and it would take some time to show results.

**Anshuman Atri:** How about the integration with the Dr. Fixit part? Will it help get more projects or Nina help the Dr. Fixit gain more customers?

**Apurva Parekh:** Nina and Dr. Fixit both would help each other. This acquisition was done because many of the larger customers requested that they would like a combined solution of both product and application and hence we had done this acquisition. So essentially it would help us both. As I said, with the help of Nina we can get some of our products specified which would help us increase the sale of our products and with a parent like Pidilite, would help Nina increase its business.

**Anshuman Atri:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

**Ranjit Cirumalla:** Thanks for the opportunity. Just wanted to get an update on the Elastomer project that has been for several years this project has been in limbo. So any further thoughts or we should expect that it would continue to be in a CWIP mode?

**Apurva Parekh:** As I said in the second quarter call, at the end of each year, we take a full review of this. So, at the end of this year, we will again take a full review of this project and we will give an update at the end of the year.

**Ranjit Cirumalla:** Sir, my second question is on the competition landscape even though there are new players entering and it would not change in the immediate future probably one or two years, but if you take a view of the next five years, would you see the landscape changing for each of our products?

**Apurva Parekh:** It is very difficult to predict. If you see over the years, there have been many competitors, small, medium and very large even global players, so I would believe that the competition scenario would continue as it is. It is possible that it can increase and it is equally possible



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that it may reduce. It is very difficult to predict; however, there would be many competitors in each of our categories. It has always been like that.

- Ranjit Cirumalla:** Do we continue to scout for small acquisitions like we did in our Bluecoat?
- Apurva Parekh:** Yes, we will continue to look for strategic acquisitions if they have strong strategic purpose, certainly we will look for various acquisitions, but with strong strategic purpose.
- Ranjit Cirumalla:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mehernosh Panthaki from HDFC Securities. Please go ahead.
- Mehernosh Panthaki:** I just had one more question. Your margins have expanded significantly during this quarter, but it could have been more if there was no rise in the other expenditure as a percentage to net sales. They increased by around 120 BPS on YOY basis. So just wanted to get a sense on what has led to this increase in the other expenditure as a percentage to net sales?
- Apurva Parekh:** In this quarter, particularly, it was because of advertisement. We had released a new advertising campaign for one of our products and I think the largest spend increase in this quarter was on advertising.
- Mehernosh Panthaki:** Can I get a just rough idea about how much were the ad spends to net sales in this quarter and how much it was in the last quarter of Q3?
- Apurva Parekh:** Quarter-to-quarter the figures can change and in this quarter advertising spend was a little higher than the first six months of the year as a percentage of sales.
- Mehernosh Panthaki:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.





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- Ruchir Khare:** Good evening Sir. Thank you for the opportunity. Congratulations for good set of numbers. Sir, most of my questions have been answered. Are we seeing any change in sales from the online channels from traditional distribution networks?
- Apurva Parekh:** As of right now, to our knowledge, online is not a significant portion of any of our product categories.
- Ruchir Khare:** Sir, your thoughts on this like if this category could become big or that does not apply to our set of products, your thoughts on that?
- Apurva Parekh:** This category will certainly grow for our products and you know we are making plans to increase our online presence. Many of our products are available online today, but we will certainly increase our presence and the sales will grow. Now how large will it become in our category is anybody's guess, but clearly we will certainly participate. We will have our products available and we will sell through the online channel. As of today, some of the products have already online presence, but it is not significant.
- Ruchir Khare:** Sir, second is again on the advertising expenses. Sir typically we have been doing roughly 3% of the revenue into the advertising and promotion expense, so are there any plans of taking this further ahead drastically or more or less it is expected to remain in the same range?
- Apurva Parekh:** I think we desire to increase our advertising and sales promotion expenditure and as our consumer and bazaar increases as a proportion of our total turnover, our advertising and sales promotion spend would also increase; however, we are very careful and we make sure that we evaluate the right opportunity and we have the right communication before spending. So it is likely that we may increase this spending, but it would be very carefully and judiciously planned.
- Ruchir Khare:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.



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- Sameer Gupta:** Good evening Sir. Just two questions from my side. Could you give a guidance on the tax rate and the capex for the coming years?
- Apurva Parekh:** Our tax rate has gone up because some of our units in Himachal had gone out of tax-free period, so our tax rate is likely to increase in the current year and also in the next year.
- Sameer Gupta:** Sir on the CAPEX?
- Apurva Parekh:** CAPEX barring something unusual we expect will be normal CAPEX. As our size increases, we will have some normal increase in CAPEX but our normal CAPEX is about 125 to 150 Crores. So we expect same kind of CAPEX in the normal circumstances, but it could go up or down in a year depending on the circumstances.
- Sameer Gupta:** Thanks Sir. That is very helpful.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my question. Most of my questions have been answered. Just two follow-up; on one of the comments that you made in the near term you would see margins to stay at these levels and then you probably expect them to normalize. Sir, my question is basically with us not taking any significant price cuts how would you see the normalization of these margins because the kind of RM correction we have seen has been very, very sharp and this is something which is unlikely to reverse any time soon. So, what is that we will be increasing? Are we going to increase ad spends significantly? What changes that the margins will normalize?
- Apurva Parekh:** First of all, I was referring to gross margins not advertising or anything. My comment was more based on gross margin because if you look at net margin then it would depend on the sales growth and many other factors. Coming back to gross margin, the raw material prices is anybody's guess. When you think about it, anything can happen. Last year, I think none of us thought that the oil prices can go down so much. So my comments are based on the fact that such cycles keep on going up and down. It is very difficult to predict how will they go and what will happen to raw material in the longer run, but this has been a very sharp



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correction. So it may follow up with some increase. So my comments were based on that otherwise it is very difficult for us to predict our gross margin.

**Gunjan Prithyani:** Sir, I remember last time, you had mentioned that if you think that this RM correction is something which is likely to stay then you could take some actions in the sense of price cuts across the portfolio or looking at more discounting for the channel, so are we at a stage where we think that we should take some of these decisions?

**Apurva Parekh:** I do not think I ever said that we would take any across-the-board decision or we will increase discount across-the-board or anything like that. As I maintained earlier, how we operate our pricing policy is very important and it is something which we do in a very judicious manner and as and where it is necessary, we will consider changes in pricing and discounts, but in Pidilite because our wide product portfolio, almost nothing is across the board both in terms of price increases or price reduction; however, as you have seen historically, if there is a sudden rise in raw material prices there could definitely reduce our gross margin and where there is a significant reduction in raw material prices there is increase in our gross margins, but beyond that I would not like to get into too much detail on our pricing strategy across various products and segments.

**Gunjan Prithyani:** Sir, in terms of competitive intensity, has there been any significant change because I do understand some of these large companies, which you are operating in other building material, segment and now you are entering into adhesives so have you seen any increase competition from these larger organized players?

**Apurva Parekh:** Well, as of right now we have heard that somebody maybe entering and we have seen some products in the market; however, you know it is very recent development and hence we have not seen any real change in competitive intensity in the market.

**Gunjan Prithyani:** From our perspective, if we are relooking to get into any other building material segment because that is what we have been seeing as a trend that most of these companies are trying to venture into newer segments and use their existing distribution network to basically get into other segments, so is that something which Pidilite could look at?



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**Apurva Parekh:** As you have seen over the years, we have expanded our product portfolio but we very carefully expand our product portfolio so, yes certainly it is possible that we may get into new categories as we have been doing over the years, but it is not something that we would do because every body else is doing it or we must do it. We carefully evaluate various opportunities and we believe that if we can create a substantial business then we may enter into other categories, but there is no definitive or concrete plans as of today.

**Gunjan Prithyani:** Sir last question on Brazil, any thoughts what is happening there I mean of course your operations are fairly weak but we also have in past talked about looking at a strategic divestment there so any progress there or how we thinking about it now?

**Apurva Parekh:** Currently, the economic situation there is very poor so basically right now there is not much activity. There is really very little activity happening on this front in overall Brazilian market. So currently our focus is on improving our efficiency and hence if you see despite decline in sales we have been able to achieve a breakeven kind of profitability so currently we are focused on ensuring that we do not incur losses; however, on a longer term basis, we clearly would like to look at various strategic options including a tie-up with somebody or any other option that makes sense. But however currently the Brazilian economy is in a shape that such activities are at very low levels.

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

**Moderator:** Thank you. We have the next question from the line of Vivek Priyadarshi from HDFC Securities. Please go ahead.

**Vivek Priyadarshi:** Sir can you please give us the comment on the other international businesses like US, Middle East, Asia?

**Apurva Parekh:** So, USA has had a fairly good quarter. On a constant currency basis, the sales were up about 22%. They both have grown in their respective segments and there is reasonable profitability of this business. If you see the profitability of compared to last year, it has moved up quite well. So North American business has made a reasonable progress in the current year in terms of both sales growth and profitability. In of south and Southeast Asia we are making good progress in Bangladesh in terms of market penetration, introduction of



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new products. As far as Sri Lanka goes, we have done a small acquisition in the second quarter of this year or I think in the third quarter of this year so the sales have started there and we have also some distribution operation of Pidilite products in Sri Lanka. Thailand has also done well. So all the three countries in South and Southeast Asia have done well in terms of sales growth and profit growth. Middle East and Africa as we said the sales growth is due to the change in distribution of products, which were earlier sold through a distributor and now we are selling through our company there and hence there is a faster sales growth; however, that company has had losses mainly because of investment in various SG&A expenses we have made for future sales growth in the that market. So we are working on introduction of various new products in that market. We have commissioned a new manufacturing plant and we have put together a sales team to increase the sales of our building material product portfolio in that market. So some of the losses are due to the investment done to build the future sales growth in that market. In Brazil, the sales declined by almost 17% in the current quarter on constant currency basis, however, losses were contained due to various actions on expenses. So I think Brazil and Middle East are the two markets that have not done well and these are the markets were we have to work to improve the performance. Other subsidiaries have had a fairly good quarter and year.

**Vivek Priyadarshi:** Sir the second question was we had started some retail store initiatives for art and decorative materials so this being a Diwali quarter what is a traction that we are getting with customers?

**Apurva Parekh:** I think we have started arts and crafts if you are referring to hobby ideas almost seven eight years ago so we have set a few stores, we have today eight or nine stores. However, due to the difficult retail environment in the country we have not expanded because we have not been able to find a very profitable way to grow in this segment. So we continue to have only eight or nine stores which are very useful in terms of giving us the customer insight which is useful for overall our art and craft business; however, we will not expand this business till we find the right and profitable business model to grow.

**Vivek Priyadarshi:** Thank you.

**Moderator:** Thank you. As there were no further questions, I would not like to hand the conference over to the management for closing comments. Thank you and over to you Sir!



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**Apurva Parekh:** Thank you everybody, for your questions. Good evening.

**Moderator:** Ladies and gentlemen with that we conclude the conference call. Thank you for joining us.  
You many now disconnect your lines.

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(this document has been edited for readability purposes)