

26<sup>th</sup> May, 2016

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Corporate Relationship Dept.,  
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Mumbai - 400 001  
**Stock Code – 500331**

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

Dear Sir,

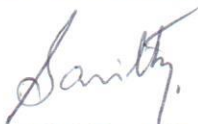
**Sub: Transcript of the Earnings Call**  
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We enclose herewith, a transcript of the Earnings Call held by the Management team of the Company with Analyst/Investors on 20<sup>th</sup> May, 2016.

Kindly take the same on your records.

Thanking You,

Yours faithfully,  
**For Pidilite Industries Limited**



*PK*  
**Savithri Parekh**  
Secretary

**Pidilite Industries Limited**

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Pidilite Industries Limited  
Q4 FY16 Earnings Conference Call

May 20, 2016



**ANALYST: MR. SANJAY SINGH - AXIS CAPITAL**

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



*May 20, 2016*

**Moderator:** Good day ladies and gentlemen, welcome to the Pidilite Industries Q4 FY2016 results conference call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for 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. Sanjay Singh. Thank you and over to you Sir!

**Sanjay Singh:** Good evening everyone. On behalf of Axis Capital, I warmly welcome you to the conference call for Pidilite Q4 FY2016. Let me first introduce the management, we have Mr. Apurva Parekh – Executive Director and Mr. Pradeep Jain, the CFO of the company. Over to you Sir!

**Pradeep Jain:** Good evening everyone. Welcome to Pidilite’s Q4 2015-2016 and the full year earnings call. Let me begin with the few comments on the demand front. Demand conditions do remain a little strained in parts of the country, but what is heartening is the early forecast for the monsoon, which we believe, will provide the much-needed impetus to demand.

Let me quickly move on to the business highlights of the quarter. It has been a good quarter on the back of strong deltas provided by the domestic and international subsidiaries over our standalone performance both on net sales and EBITDA. This has been aided albeit to some extent by the low base of last year.

A quick update on the domestic acquisitions made in the last 12 to 18 months. They are all on track and doing well. Bluecoat, which we acquired in 2014-2015, Nina Water Proofing Systems acquired in Q1 of 2015-2016 and the Sri Lanka business that we acquired in Q3 of 2015-2016.

Quick comment on the JV with ICA that some of you might be aware. The company entered into a joint venture agreement with ICA, leading wood finish manufacturer. The joint venture will acquire the current wood finish distribution business of the local distributor and will be the exclusive distributor of ICA wood finishes in India and select

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SAARC countries. Joint venture will initially engage in the high technology wood finish business in India and at a later stage select SAARC countries.

I move over to the exceptional items for the quarter. Exceptional item for the quarter is a provision for diminution in our investments in the subsidiary in Brazil amounting to about 27 Crores. The Brazil subsidiary has significantly improved performance and achieved breakeven at an operating level in the quarter. The diminution in the value of investment is an outcome of the tough demand conditions prevailing out there and the depreciation of the local currency.

A comment on the synthetic Elastomer project, the company, as most of you are aware, has been making attempts in the past few years to find a strategic partner for the project. While a lot of discussions have happened they have not concretized. We intend to intensify our efforts in search of a strategic partner in the coming financial year. Meanwhile the company intends to utilize the Dahej facility for manufacturing adhesives and other products for our growing export market.

I will move on to the financials for the quarter and the year. Our standalone net sales for the quarter grew by 12.2% driven mainly by the 12.4% growth in the sales of the consumer and bazaar products and 7.5% growth in the sale of the industrial products. Material cost as a percentage of sales reduced by approximately 700 basis points driven by the lower input costs. EBITDA, before non-operating income and exceptional items, was higher by 62% over the same quarter last year.

PBT before exceptional items grew by 82% and PAT grew by 49%. On a consolidated basis net sales grew by 18.9% the higher consolidated growth was mainly due to better performance of overseas subsidiaries and Nina Water Proofing, which was not in the base last year. Material cost, again, similar advantages as in standalone; EBITDA grew by about 78%, PBT before exceptional item growth of 109% and PAT was up about 91%.

For full financial year 2015-2016 our standalone net sales for the quarter grew by 7.6%, material cost roughly the same advantage of about 700 basis points compared to prior year and EBITDA before non-operating income and exceptional item was higher by about 47%. PBT grew by 52% and profit after tax was up 40%.

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On a consolidated basis net sales for the full financial year grew by about 10.8%, material cost advantage of about 700 basis points, EBITDA grew 52%, PBT grew 58% and profit after tax was up 49%.

I will stop now and we can open the floor for questions.

**Moderator:** Thank you. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Congratulations on an extremely good set of numbers. First question is your overseas businesses have done extremely well so what has changed there? Is it again a base effect, which you discussed in opening remarks?

**Pradeep Jain:** Partly driven by the base effect but I think overall our US business has done very well and so has our business in the subcontinent those were the two prime drivers of the growth of our overseas business.

**Abneesh Roy:** No Sir, what has changed, you said base effect was there but also fundamentally also things are improved so what is driving this?

**Pradeep Jain:** Part of it is driven by the base year effect and obviously in the US business it is the art and stationary business which has really done well on the back of the "Adult craft trend.

**Abneesh Roy:** Sir next quarter your base is not that favourable this time it was extremely favourable and so are you saying this is largely because of base only in the domestic business or things have improved because we saw paint companies also till now report reasonably good set of numbers in Q4 so on the demand trends if you could say is it only because the base in domestic demand or is it also because underlying trend has strengthened?

**Pradeep Jain:** It is very difficult to cull that out so sharply Abneesh, if you look out our quarter-on-quarter performance obviously this is the strongest performance in standalone for the last six quarters so that is reassuring; however, can we call out that this is a more sustainable trend in the coming quarters, right now we do not want to call that out, because we are seeing conditions a little strained in some parts of the country.

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**Abneesh Roy:** Sir my second question is on the competitive intensity the largest paint company has tied up with a global large player and now technology is also there and now distribution at least of the paint shops is there so from a longer term perspective would you rate this as the most potent threat which has come in the last say 15 – 20 years because till now no one has succeeded in terms of competition to you but finally do you think there is a credible players so maybe you now need to be more prepared?

**Pradeep Jain:** Abneesh, you know we will maintain our stance what we have always said, right. We do not take any competition lightly. We do our things, they will do their things. We also believe that there is enough headroom in most of the categories that we operate in for new players to come and rather than we driving category growth multiple players to drive category growth, so that is what our stance on this one is. We do not take any competition lightly and we will do our things. Pidilite's expertise has been to grow categories and create market on their own.

**Abneesh Roy:** Sir last question, could you talk about this acquisition, which you have done? Were you already present in this furniture segment and how big is the category? What is the market share currently because there in India for last many years so which are the key players so what is the growth likely looking in this acquisition?

**Pradeep Jain:** Obviously Abneesh we cannot share precise numbers but it is a reasonably attractive opportunity the fact that we have gone ahead with it and again we will stick to the Pidilite core competency of picking up a category and then growing it at a rapid pace with our interventions.

**Abneesh Roy:** But are you saying how much is the organized share currently and who are all the key players apart from this?

**Apurva Parekh:** This Company operates at a very premium end of wood finish so there are some Indian and International companies in this space including some paint companies like Asian Paints so our joint venture is going to initially focus on the premium end of wood finish market. The other players are in the market like Asian and other paint companies.

**Abneesh Roy:** Right and till now you are not present in this segment at all?

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- Apurva Parekh:** We were present. As you know we have a brand called Wudfin and we were present in this segment; however ICA has a very strong presence in the premium end of the market.
- Abneesh Roy:** I will come back in the queue. This is very useful. Thank you.
- Moderator:** Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Thanks for taking my question. Just wanted to kind of get your comment you said that you do not want to call out a recovery but if I look at your adhesives and sealants segment in FY2016 sales growth is broadly similar to FY2015. What has driven this relative strength and would it not suggest a personal demand bottoming out in this category?
- Apurva Parekh:** I think certainly third and fourth quarter was better this year but you know we still see that demand condition and part of India remain subdued. So while as you know there is clearly an improvement in demand in third and fourth quarter compared to the first two quarters however overall demand conditions is a bit subdued and hence we cannot say fully that there is a full recovery in around four quarters.
- Avi Mehta:** Sir but you have not bottoming out any adhesives and sealants growth if I see FY2015 sales growth is roughly similar to what you seeing in FY1016?
- Apurva Parekh:** You are seeing value growth rates and not the volume growth rate, however it is possible that it could have bottomed out but you know we would not like to hazard a guess.
- Avi Mehta:** That is useful and Sir. The first part of the question between adhesives and sealants what has driven that strength?
- Apurva Parekh:** Our overall adhesives and sealants business has grown because of various factors that we do in terms of new product introduction, premiumization and various sales and marketing efforts. Nothing out of ordinary.
- Avi Mehta:** Okay, and secondly just trying to take if I take the difference between the consolidated and the standalone which is the rough performance in the subsidiaries the gross margin has seen a very sharp improvement now and this is for the yearly basis and this is now subsidiary



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gross margins for the year is actually higher than standalone and even on a quarterly basis and the difference is even most larger if this, can you please explain the reasons of this and whether this would sustain Sir?

**Pradeep Jain:** Avi obviously you know in our international subsidiary there is a little bit of currency play also happening which might be aiding this phenomenon but otherwise we do not think our gross margin for the international subsidiaries are higher than our standalone.

**Avi Mehta:** Nina would not be any reason right; it cannot be Nina any ways?

**Pradeep Jain:** No.

**Avi Mehta:** Sir lastly guidance on the tax rate you are already at 31% how should we kind of take this going forward and a small question would be the reason for the marginal reduction in this Moto holding?

**Pradeep Jain:** On the first one, progressively, you know as our units move out of their tax exemption holidays, the tax rate will effectively over the next two-three-four years reach the full marginal rate, so that is on the tax rate. On the promoter shareholding I will request Apurva to respond

**Apurva Parekh:** As for the promoter holdings, one of the family members has sold a very small amount of shares for some personal reasons.

**Avi Mehta:** This is a one off you have and this is the limit that you, it's a one off event, is what I will take. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

**Atul Tiwari:** Sir if I look at the 12% revenue growth in the standalone business in the quarter how much would be the volume growth and how much will be the value growth if that is possible to set that out?





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- Pradeep Jain:** I mean broadly if you look at it we have made some interventions to stimulate demand over the last couple of quarters Suffice to say that our volume growth is higher than a value growth in this quarter as well.
- Atul Tiwari:** Sir as you mentioned that consolidated revenue also benefited because of infusion of Nina Waterproofing so how much was the revenue from that company in the quarter?
- Apurva Parekh:** The annual revenue of Nina will be approximately Rs150 Crores so about pro-rata for the last quarter.
- Atul Tiwari:** Now obviously because in this quarter you have seen 12% plus volume growth so that is a very strong growth rate right, so what is the outlook for next year I mean should we look at the similar number or a much lower number or a much higher number?
- Pradeep Jain:** We do not give any volume outlook. Historically, we have never given that and we do not want to hazard a guess also. Again we would want to say that Pidilite has historically always wanted to grow revenues around the mid-teens. Our aspiration has always been to grow in that range.
- Atul Tiwari:** Sir my last one is on the margin so we are seeing some uptick in the crude prices and so the question is that your current level of raw material cost or the cost above EBITDA I mean what level of crude prices broadly they reflect and if crude prices were to move to say \$60 or so in six months time how much impact could be there on the margin, any rough color would be?
- Pradeep Jain:** Again we do not want to give a number. We will be consistent with what we have been maintaining over the last two three quarters. As the prices went down we did not pass on everything to the consumer because of the pricing power our brands have and if you fast forward as the prices move up and reach more steady state we will obviously not take pricing to that extent so therefore our current margins are definitely not sustainable.
- Atul Tiwari:** Thank you.



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- Moderator:** Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.
- Ruchir Khare:** Good evening Sir. Thanks for taking my question. Sir in Q4 FY2015 that is last year our ad expenses were pretty higher I think it was close to 6% of sales and which was the primary reason for subdued margins then. What were the ad expenses this time or is there some change in trend or something?
- Pradeep Jain:** I think, from what I remember, Q4 of 2014-2015 was the Cricket World Cup year and therefore it was the perfect event to do ATL campaign for our brands. We were not lapping that kind of event this year and therefore the A&P would have been lower but by and large if you look historically over the year our A&P on a full year basis remains reasonably consistent.
- Ruchir Khare:** So that would be again 3 – 3.5% of sales is a fair assumption to go with?
- Apurva Parekh:** Yes, more or like 3.5% - 4%.
- Ruchir Khare:** Sir second thing is like just something on VAM prices last quarter I think they were over close to \$900 so is there any shift in that or any uptick we have observed, I understand that it comes with the lag but on an average pricing for VAM in this quarter?
- Pradeep Jain:** That is broadly the range. \$900 to \$1000 is roughly the range and you are right as crude goes up obviously with the lag the prices will go up.
- Ruchir Khare:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Gautam Chachoria from UBS. Please go ahead.
- Gautam Chachoria:** Congratulations Sir, for good results. A couple of questions, one is your short term provisions have come down from almost 200 Crores-odd to 50-odd Crores in FY2016 how was this accounted P&L, balance sheet etc?



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**Pradeep Jain:** Short-term provisions coming down, I mean off-hand there is nothing that we can relate to. So to your question this is on account of the proposed dividend that was accounted for in the last year which was paid off in the current financial year whereas this year the interim dividend have already been paid out in March.

**Gautam Chachoria:** The second question is that from a pricing power perspective we have obviously seen raw material prices going down and showing up in margins for the consumer business but we have seen a similar scale improvement in margins and industrial business also for fiscal year 2016 so is the pricing power similarly there or is that something more volatile there can you throw more color on that?

**Pradeep Jain:** Just common sensically for B2B consumer we have to pass on a lot more, right, the brand plays a very limited role to that effect so therefore we have had to pass on a lot more but having said that yes we have not again passed on the full benefit to the customers. We have made some customer mix corrections also by surrendering certain amount of volume and going forward as the prices go up again we may have to take a certain dip in the margins.

**Gautam Chachoria:** The extent of increase is still quite high, 600 basis points odd in industrial business, so assuming prices of raw materials do not go up, this current level of margins in that business sustainable?

**Pradeep Jain:** It is very difficult to say that because of the negotiations that happen on ongoing basis, but on a more consistent basis I would say that they will hold.

**Gautam Chachoria:** Thank you.

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

**Gunjan Prithyani:** Thanks for taking my questions; I have two questions, firstly if I look at the segmental growth within the consumer and bazaar products. As someone pointed out earlier also adhesive seems to have held on really well and the growth rate in terms of value is fairly similar to what we did in FY2015 that basically implies the volume growth would have been even higher in FY2016 and if I look at construction and paint chemical, the growth is



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just about flattish, so could you just throw some color what is happening in both these segments specifically in terms of demand and why is this growth rate so muted in construction, paint chemicals?

**Pradeep Jain:** Not being able to relate to the number that you are saying, but again off hand we would want to convey that adhesive and sealants have done well, the extent of premiumization that we have done in the adhesive and sealants category is of a much higher order and that have allowed us to capture a value delta, which is significantly higher than our historical run rate, so may be that is explaining to some extent, what you are seeing, wherever you are seeing it.

**Gunjan Prithyani:** Construction and paint chemicals, of course I understand the number in terms of percentage growth could be a bit different because I am just using the mix that you have given in your investor update and looking at the growth, but it seems that it has been low single digit growth in construction and paint chemical, so any specific reason for this muted growth in that category?

**Pradeep Jain:** The only point I can make is that this entire slowdown has seen a fair amount of impact on the construction category and that is one reason why the construction chemical would be a little slower.....

**Gunjan Prithyani:** Has the industry has the similar growth or has it been that Pidilite per se has seen more competition in this space and may be the other players are growing faster in this category?

**Apurva Parekh:** If you would recall Gunjan, in construction, in paint chemical we had also discontinued some of the products which had lower margin, we had discussed within a call couple of quarters ago, so that had a bit of higher impact in construction, paint chemicals where we reached some portfolio rationalization and also there is higher competition in that segment, so that may have some impact on growth as well.

**Gunjan Prithyani:** Fair enough, just moving to your JV in Italy that you announced, now I am just trying to understand what is the thought process in terms of this wood finish business, do you see this as complementary to your existing line like this would classify under your adhesive or



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sealant, where does it come in and what is the thought process of venturing more expensively in this business segment?

**Apurva Parekh:** Wood working adhesive is our largest business, so anything to do with furniture, anything to do with wood working is a segment that we understand very well and hence wood finish is the natural adjacency to our wood working adhesive business and we have been in this segment for few years with couple of brands like Wudfin and Showcase and hence when an opportunity came for a joint venture with a company which has a very good image in premium wood finishes we decided to enter this segment, but there is a very good understanding of this segment, this is a very good adjacency. Also we have the relevant distribution.

**Gunjan Prithyani:** The reason I am asking this question is because we are extensively seeing that these building product companies are trying to venture out of their existing core segments and gets into, diversify into other segments primarily use the existing distribution network, so is there a thought process that we could also diversity into some other segments, of course they will be complementary to some extent, but is there any category that you have in mind that you guys could look at?

**Apurva Parekh:** We do not, if you are saying that beyond wood finishes what else, we may have some thoughts or ideas, but obviously we are not at any stage where we have taken a decision and certainly we do not want to do something, because other building material companies are doing it. We would do something where we believe we can have the right competitive advantage to succeed.

**Gunjan Prithyani:** In terms of Capex, how much was is it in FY2016 and how do you see it would be in FY2017?

**Pradeep Jain:** It remains pretty consistent about 2.5% to 3% of net sales.

**Gunjan Prithyani:** But that would not include the outgo for the acquisition that you have made in FY2016 right?

**Pradeep Jain:** Acquisitions are over and above that.

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- Gunjan Prithyani:** So what was the total amount spent in FY2016 for these two Nina and this one?
- Apurva Parekh:** This wood finish JV it was about Rs.60 Crores and Nina was another Rs.60 Crores.
- Gunjan Prithyani:** Last question on Brazil has there been any movement around the divestment, which was discussed couple of quarters back?
- Apurva Parekh:** Brazil economy is obviously going through very, very difficult times, as we had said earlier we are opened to looking at any option, but this is not a right time to do any kind of divestment in Brazil because of very difficult economic condition and hence we took several initiatives as we have taken earlier in terms of improving our margin and reducing the cost, so that is showing improvement at operating level, significantly reducing or eliminating the losses, so we are currently committed at building and improving that business and waiting for economic conditions to improve. However, in the meanwhile if there is any kind of strategic option that comes up we would take it very seriously and look at it.
- Gunjan Prithyani:** Thank you so much, very helpful.
- Moderator:** Thank you. The next question is from the line of Ashish from Value Research. Please go ahead.
- Ashish:** Hello sir, this is Ashish from Value Research, I just wanted to, a question on the input cost, you have said that your margins have gone up because of fall in input prices and I am reading on the report recently that Celanese the largest producers of VAM in the world has increased the VAM prices by \$25 per tonne, so are you witnessing any increase in the input cost already or some pressure from the suppliers on price side?
- Pradeep Jain:** This is an ongoing discussion that keeps happening with our supplier portfolio, Ashish, so I would not want to comment on a particular supplier, but like I said as the crude inches up with the lag the prices will go up. We also believe that the current prices of all our key raw material which are linked to crude are clearly not sustainable.



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**Ashish:** My second question is that the industrial product growth rate for the full years has gone down to almost flat as compared to last year, so are we making any attempt to increase the sales of the industrial product through maybe marketing new products launches?

**Apurva Parekh:** In industrial products, there are two things, in industrial products there has been some price reduction as well because of the significant reduction in raw material prices. Our volumes have grown while value may have remained flat and second yes ongoing efforts are always there to introduce new products to introduce new customers or to go to new geography. But, as we have always said in the past we are very focused also on the profitability of the business and hence we carefully evaluate new product and new market opportunities.

**Ashish:** Great, thank you very much.

**Moderator:** Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

**Amnish Aggarwal:** Hi sir, I have couple of questions, my first question is regarding your Dahej unit where you are proposing that you will now use it to manufacture adhesive and other stuff for export, so can you throw some light at what sort of changes in the plant you will have to make and what sort of capex it will be required and what sort of opportunities you are exploring now with this move, if there is any deal with the potential investor does not happen in the longer-term?

**Apurva Parekh:** As far as the manufacturing of adhesive and other product goes we are going to utilize the Dahej land and building and put up some capex, it is not a very significant capex and with that we will be utilizing the part of the land and building and initiating export fairly soon, so that is the plan, it is part of our normal capacity addition for our export market.

**Amnish Aggarwal:** That machinery I believe cannot be utilized for making any of the stuff?

**Apurva Parekh:** Yes that cannot be utilized, so we are putting in some additional capex, but it is not very significant, but we are able to utilize part of the of the land and building and put up some plant and machinery to at least start part utilizing the assets that we have.



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**Amnesh Aggarwal:** In the presentation which you have given on slide 11, you have given some sales mix, so is that pertaining to the standalone numbers or is it for consolidated as a company?

**Pradeep Jain:** Standalone.

**Amnesh Aggarwal:** These are standalone, okay and sir finally one question, which is likely say for the longer term if I look Pidilite in the past two, three years in particular, so you have started now doing some accusation like you acquired Bluecoat, then Nina and now you have acquired unit for, this company for the wood finish business, so in the largest context of things and given the fact that we have got some global players like Henkel and BASF, etc, again becoming active in some of the product lines where you operate, so where do you see Pidilite going in terms of products and in terms of competitive intensity and its positioning in the coming few years?

**Apurva Parekh:** Competitive intensity has always been there, Henkel has been in India for decades, it is nothing new, BASF has been in India for many, many years, so in India in adhesive and sealant and other segment competitive intensity has always been there and that is with a mix of multinational and large number of medium and small, regional and national companies, so I do not believe there has been any significant change in competitive intensity. As far as our strategy remains we are very focused on the business in which we are and we continue to focus to grow our core while also pursuing innovation and new product introduction, so essentially there is no significant change in our strategy and I do not believe there is a significant change in competitive scenario as well.

**Amnesh Aggarwal:** But sir do you believe that now in from the past two, three years, whether it is BASF or Henkel or some of these other global players, so there capex in India for setting up the manufacturing units, the part of it may be for exports also has increased, so can it lead to say much higher competitive intensity in future?

**Apurva Parekh:** Our business is not very capex intensive. They would have set up a plant as a part of their normal capacity expansion that all companies need to do, however, India is an attractive market, so people have been making efforts for many years and they will continue to make efforts, but I would not say that they setting up a plant is an indication that competitive





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intensity would go up. Competitive intensity has always been high is what I am trying to tell you.

**Amnish Aggarwal:** Like we have entered your this wood finishing, we are now entering the premium segment, so which other you can say segments in this entire space which we are covering relating to say home building and all these things, which other spaces which look interesting to you?

**Apurva Parekh:** Many spaces are interesting and we evaluate many opportunities, however, as I said earlier we carefully evaluate all such opportunities and we will enter only if we believe that we can build a strong competitive advantage, but for very obvious reason we would not like to share what are those opportunities or when do we plan to enter there. As and when we are ready, as and when something concrete happens we will certainly announce it.

**Amnish Aggarwal:** Okay sir, thanks a lot.

**Moderator:** Thank you. The next question is from the line of Anand Shah from Kotak Securities. Please go ahead.

**Anand Shah:** Hi sir, just couple of questions when you eluded towards your earlier part of the conversation that you have taken some interventions in your portfolio to stimulate demand, so what kind of intervention or price cuts have you taken?

**Pradeep Jain:** We did some dealer rebates in scheming, in this category the price is fungible between the consumer and the customer and we did that sometime in early Q3.

**Anand Shah:** Is it possible to quantify how much impact that would have?

**Pradeep Jain:** Very difficult to quantify, but suffice to say that we did pass on some of our input cost benefit.

**Anand Shah:** But that is all largely through dealer rebates, nothing in terms of MRP level reduction?

**Pradeep Jain:** It will be a mix of the two.

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**Anand Shah:** It will be a mix of the two and this would be across your portfolio like adhesives or adhesives or sealants or?

**Pradeep Jain:** Again selective.

**Anand Shah:** Selective largely okay and you also did call out that select parts of the country obviously witnessing the subdued demand, so any specific regions you would like to point out?

**Pradeep Jain:** Nothing; there is always a standard deviation in a country like India where you are dealing in 29 states, so nothing, very, very, extraordinary that we want to call out, I think as Apurva mentioned in certain parts of the country we feel that it is taking a lot more effort.

**Apurva Parekh:** See Anand as you know some parts of India are more affected this year because of drought and other condition and there are some regional factors, which are more, having an impact in some parts of India, so it is like other companies, nothing running?

**Anand Shah:** It is stood as drought related issues?

**Apurva Parekh:** Drought is one of the reason yes, nothing unusual, few states are underperforming, but it is same for everybody.

**Anand Shah:** Secondly your international business this quarter has witnessed very, very strong growth and both in terms of cost and currency and reported, what kind of sustainable growth can you see and was there, any one of or may be bunch up our revenues or anything there to call out?

**Apurva Parekh:** There are two things, first of all we do not like to give outlook for our domestic business and same applies to international, we would not like to say any, sort of outlook or what kind of growth we expect going forward, however, some of our international subsidiaries have now started performing well on a consistent basis and I will mention the three large ones, one is Bangladesh where we have been slowly and carefully building a strong business in Bangladesh and it is now consistently growing for last four, five years in terms of both sales and profits. Our Thailand business is also now very consistent despite political and other issues there. Thailand business has been consistently going and has good profitability. Our



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US business also has started performing well, both with domestic chains online in America as well as in International Market so that is also now performing on consistent basis. So we have now out of our international subsidiaries three or four divisions or companies performing well on a consistent basis, so with that we expect our International business now we will start showing some consistent sales growth and profit growth. There are pockets, yes there are some wins we have had with some chains or some business has gone up, which if the trend changes may have some impact on our topline growth, but overall as a mix we believe now our international business is in a now more consistent phase of growth. I hope that answers your question.

**Anand Shah:** That is very helpful and just one more this Sri Lanka business can you just tell us as to what exactly is in to and how big would be the opportunity?

**Apurva Parekh:** Sri Lanka business we acquired besides other our distribution of Pidilite product where we acquired a local business of white glue, which is like Fevicol the leader in that market, so we acquired that business and with that now we have a stronger presence in that country and we will now add more products, we will increase the distribution of other products, but it is relatively small and not very material, but over next three to five years we believe it will have a reasonable scale.

**Anand Shah:** Just one more thing lastly, anything you could make on this margin for Nina business, what kind of EBITDA margin it will be making and has it posted any improvement post your acquisition and all?

**Apurva Parekh:** Nina I would say would have approximately EBITDA margin of 12% or so and has it improved, no I would not believe it has significantly improved since we took over, the last year has been of integration of working together, so there has been steady growth in topline growth and bottom line growth, however, as you know the construction segment is going through difficult times, so currently we are focused on improving the topline growth and overall bottom-line growth, but margin improvement would follow.

**Anand Shah:** This year on a like to like basis the Nina would have posted what kind of revenue growth?

**Apurva Parekh:** Approximately I would say 14%, 15%.

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- Anand Shah:** Okay, thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.
- Nimit Shah:** Congratulation sir on a good set of number, on a portfolio level, what will be the impact of the price cut in FY2016 for the full year?
- Apurva Parekh:** We would not like to really quantify that price adjustment and the impact of that, but it is not very significant at a company level.
- Nimit Shah:** And any pricing actions we are planning for the current year?
- Apurva Parekh:** Pricing is a very dynamic thing, see price increases or decreases is very dynamic, it depends number of factors like raw material prices, it depends on competition intensity and many other reasons.
- Nimit Shah:** So till date, for the current year we have not done anything in terms of dealer rebates?
- Apurva Parekh:** We would have taken pricing action in some of the products, we have a very wide portfolio, so it is certainly that in some product we would have taken some pricing decision, however, our pricing policy is something which we do very judiciously, very carefully looking at all the factors, so I would not like to give you that this is what we planned to do for the year, it is very dynamic and need base pricing decision we take, but you need to look at our sort of margin management over the years and you need to be assured of that we do this very carefully looking at all the factors, but I would not like to share more details than that.
- Nimit Shah:** Sir how much of raw materials would be crude and crude dependent of the total cost?
- Apurva Parekh:** Almost entire raw material, I would say very significantly high amount of our raw material and packing material would be linked to crude.
- Nimit Shah:** Okay so that is the reason why our gross margins would be higher than the paint companies for this year?



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- Pradeep Jain:** I would not like to compare ourselves with paint companies and why our margins are higher or lower, but we have certainly benefited from significant reduction in crude cost.
- Nimit Shah:** Thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi sir, thanks for the opportunity. Sir just wanted to know in wood finish business, are we targeting B to B or B to C part of the industry?
- Apurva Parekh:** We will target both.
- Tejas Shah:** So will be launching brand for the same or it will be brand extension of some existing brand?
- Apurva Parekh:** We already have a brand, ICA is a brand in India, which has been selling for several years, so it is already brand in premium wood finishes, it is sold under brand name ICA and it has been in the market.
- Tejas Shah:** Second just wanted to understand what proportion of our current portfolio in Dr Fixit or construction chemical overall would be exposed to new launches by Asian paints?
- Apurva Parekh:** I do not have a right estimate of that, but may be around one fourth or so.
- Tejas Shah:** Have they gone on aggressive pricing, our products are priced compared to, equal to us.
- Apurva Parekh:** Their price would be lower than us.
- Tejas Shah:** Largely your presentation says 7000 distributors, what was the retail footprint, is this retail network or just a distribution network?



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- Apurva Parekh:** We have a two tier distribution where we supply to the distributor and they in turn supply to the retailers, so we have a two tier distribution and our product availability both through direct and indirect means in over 3 million outlets.
- Tejas Shah:** Lastly on capex guidance for the year, I missed out?
- Pradeep Jain:** Again as I mentioned it is reasonably consistent at about 3% of net sales and we do not see that changing dramatically in the coming financial year.
- Tejas Shah:** Thanks and all the best sir.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Hi sir, just few follow ups now the industrial margins you said has improved, just wanted to understand is it got to do with the mixes between the three industrial products, the mix has moved towards organic pigments?
- Pradeep Jain:** Yes, there is a little bit of product mix and there is a little bit of customer mix also coming to play.
- Avi Mehta:** Sir just trying to analyze this further in terms of the Sri Lanka, now Sri Lanka has been acquired in third quarter, wood finish has recently been acquired, just trying to get a sense on what is the roughest kind of annual run rate for sales for these business and the margin profile that you could share?
- Apurva Parekh:** Can you repeat the question, this is the question about Sri Lanka?
- Avi Mehta:** Two things, you have acquired Sri Lanka in third quarter in wood finishes I wanted to understand what the rough sales run rate is like and margin profile like?
- Pradeep Jain:** So Sri Lanka broadly it will do an annual net sales of anything between Rs.15 to Rs.20 Crores we believe and the margins would again be in the range of about 10% to 12% right now, but obviously we intend, we believe we will be able to scale it up once we come up with full product portfolio.



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- Avi Mehta:** And wood coating sir?
- Apurva Parekh:** Wood coating annual sales would be around Rs.100 Crores or so.
- Avi Mehta:** In this case margin profile would you be able to share?
- Apurva Parekh:** That we would like to wait for the year to go by.
- Avi Mehta:** Lastly sir just understanding a bit, in terms of the gross margin that we see in the fourth quarter right now, what can weigh on the margins because assuming if crude prices has remained where they are while yes this is an assumption, is there anything else that can weigh on these margins or what could the possible headwinds, if you could share that sir, that is all from my side.
- Pradeep Jain:** Nothing that stands out, Avi, but obviously as Apruva also mentioned we have a fairly complex portfolio of businesses, products and SKU so that does have a significant amount of play in our overall net revenue number.
- Avi Mehta:** You mean the mix in the product could be the only possible change, but otherwise and prices change, but otherwise nothing headwind that I might have missed?
- Pradeep Jain:** Nothing that I can think which will impact it in a major manner.
- Avi Mehta:** Lastly sir in terms of sales growth, clearly we are seeing some moderation in sales growth coming the last five years, largely to do with demand, but just wanted to get your thoughts on the demand environment or the opportunity size like and how do you see this businesses over medium term kind of your growth rate over the medium term because your five year CAGR is close to about 15%, but that is decline base and how do you see this over medium term?
- Pradeep Jain:** Avi again like I mentioned, it is very difficult we have never historically given outlooks and it is very difficult to come up with the number. Our desire is to consistently grow in that 15% range that is all and always our efforts are to try and be in that range.



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- Avi Mehta:** Okay sir this is very helpful, thank you very much sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thanks for the opportunity, most of my questions have been answered, as I just missed out the number you mentioned about Nina waterproofing you have done a turnover of Rs.160 Crores?
- Pradeep Jain:** About Rs.150 Crores is what Apurva said.
- Kunal Bhatia:** Secondly also in terms of Bluecoat what was your turnover in the current year and how much has it grown?
- Apurva Parekh:** That we would not like to give individually, brand wise sale of any products, so we would not like to share the sale of Bluecoat, but overall just to say that since acquisition there has been reasonable growth in the brand and it is doing well.
- Pradeep Jain:** It is integrated with our business now and again, as Apurva mentioned, it is doing well. We are happy with its performance.
- Kunal Bhatia:** Secondly Sir, one in terms competition brands like Henkel or BASF are already there in the market. So what is your sense on the growth in the overall organised market? Have we been able to gain more market share from all the organised players together? Have they been able to gain more market share in the current scenario?
- Apurva Parekh:** The organised share of the overall adhesive and sealant market in our estimate would have gone up over the last five to 10 years.
- Kunal Bhatia:** Sir, I am putting this in context of the current fall in the crude price related raw materials also because we have been observing during that period all these unorganized market becomes more active so what is your sense on the same?
- Apurva Parekh:** We do not believe that unorganized market is gaining share.





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- Kunal Bhatia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Devanshi Dhruva from Dolat Capital. Please go ahead.
- Amit Purohit:** Thank you. This is Amit Purohit here. Just one thing on the strategy that the management is taking at Dahej plant for export, so what is the opportunity. Is it significant opportunity that you are witnessing that is why this step has been taking?
- Apurva Parekh:** It is part of our normal capacity expansion for our exports. As you know we have been increasing the export of our adhesives and other products to several market in Middle East, Africa, South East Asia it is a part of normal capacity expansion. We had a site available. We had some land and building available there. So we decided to do expansion there so that we can start utilization of that land.
- Amit Purohit:** Sir, just going back to history, in FY2010, probably the industrial business used to get a 21% kind of an EBIT margin and with the raw material prices increasing the margins have come off, has the mix changed in this segment, which makes us comfortable that this kind of a scenario may not repeat. I am not looking at a number but in terms of trend, which will come down almost half of what we did in FY2010.
- Apurva Parekh:** What you are saying that our industrial margins have expanded and will it go back to the lower levels of 2010. Is that what you are asking?
- Amit Purohit:** 2010 was a high margin of around 21%. We have done a similar almost reached at a similar kind of a margin already. So I am saying post that there were a lot of raw material price increase, which happened and all that and which actually reduced the operating performance of this business. So, I am just trying to understand whether the mix has improved to ensure that the decline will not be that assuming a scenario that...?
- Apurva Parekh:** Mix has improved as well as reduction, as and when there is a reduction in raw material it helps improve the margin of industrial, even though we have to pass on some of that increase to the customers, there is always some reduction in margins, some improvement in margin when raw material prices are low. Along with that we also have improved product



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and customer mix. So we believe that our industrial margin would be better than some of the lows that you have seen over the last five to 10 years.

**Amit Purohit:** Sir, on the volume front you indicated 12% volume. Were you referring to overall company or were you referring to only consumer bazaar segment?

**Apurva Parekh:** Overall, as a company our volume plus mixed growth was higher than value growth.

**Amit Purohit:** Sure, and what would be that for consumer bazaar, would it be possible to share?

**Apurva Parekh:** Both our volume plus mix growth would be higher than value growth.

**Amit Purohit:** Will the price action be taken in construction chemical segment also?

**Apurva Parekh:** We would not like to discuss; our pricing strategies very dynamic and we need to decide on our pricing strategy depending on a number of factors. So we just cannot give you any outlook on our pricing strategy or action plan.

**Amit Purohit:** Lastly what would be the VAM price currently?

**Pradeep Jain:** It did stay stationary in the range of about \$900 to \$950.

**Amit Purohit:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead.

**Manish Oswal:** My question is our total shares, what proportion is related to the rural market?

**Apurva Parekh:** Our rural market is serviced in multiple ways, we have distributor in smaller towns which service rural as well as the wholesaler in larger towns also serve rural. We do not have an exact breakup of what is the sale through rural because lot of it goes through wholesale market in bigger cities.



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- Manish Oswal:** What is your sense that market is in terms of volume growth, how that market is performing compared to your overall company level volume growth?
- Apurva Parekh:** Generally we believe that smaller towns are growing at a faster rate than the bigger towns, like any other company smaller towns are growing faster, however in the last year even smaller towns saw some reduction in growth rate.
- Manish Oswal:** Sir in terms of total volume growth in FY 2016 excluding your inorganic number adding in FY 2016 on a pure organic basis what is the volume growth in the business?
- Apurva Parekh:** We do not have an exact figure for that but it would be maybe around a couple of percentage points lower.
- Moderator:** We will be taking the last question from the line of Abneesh Roy from Edelweiss, please go ahead.
- Abneesh Roy:** Sir, most of the questions are answered, I don't know if this was asked, you have taken further write off in the South American business but it seems to be profitable, so was this discussed, could you elaborate on that?
- Apurva Parekh:** See there are two factors, one is there has been a depreciation of currency. While the local business valuation is there but when you convert that in to rupee because of some depreciation, there is some impairment which is necessary and however the overall performance has improved, Brazil is going through very difficult economic scenario, so we felt that it may be more prudent to take some impairment considering uncertainty in the long term performance of Brazilian market but however in short term we are seeing improved performance, we have made some operational improvements but we need to do and see it for a little longer period of time before being sure that the business is on the right track.
- Abneesh Roy:** Last one Sir, Middle East, 38% sales growth, but negative on the profits, how such a strong sales growth is not translating to profits?



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**Apurva Parekh:** Middle East is a different scenario. We have hired as I said in couple of earlier con calls that we have hired a team of people and we are trying to build water proofing and construction chemical business there for which we have hired a team and we have incurred SG&A business and that is still not resulting in to a level of sales desired to break even or to make profit, there is a little bit if I may say delay in ramping up of sales in that market. So, sales growth needs to be much higher to support the higher SG&A cost that we are incurring.

**Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.

**Apurva Parekh:** Just before we close, one clarification I want to give is one question was asked - Asian Paint has launched water proofing product and what percentage is against our product portfolio. They have launched a fairly large range of products and I don't have an exact percentage of how much of that is competing with our product range, but they have launched a broad product portfolio and they continue to add some more products. That is just a small clarification towards end. We don't have the exact percentage of that which competes with us. Thank you everybody.

**Moderator:** Thank you members of the management team. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

*This document has been edited for readability purpose.*

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