

28<sup>th</sup> June, 2016

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

**Sub: Transcript of Analyst meeting**  
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We enclose herewith, a transcript of the Analyst meeting held on 22<sup>nd</sup> June, 2016.

Kindly take the same on your records.

Thanking You,

Yours faithfully,  
For Pidilite Industries Limited



Savithri Parekh  
Secretary

NS

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**“Pidilite Industries Limited  
Analyst Meet 2016”**

**June 22, 2016**



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

**MODERATOR: MR. SAURABH MUKHERJEA – AMBIT CAPITAL**

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Pidilite Industries Analyst Meet hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. At that point, participants who would like to ask questions may press '\*' and '1' on their touchtone phone. Participants who would like to ask questions at that point may please press '\*' and '1'. Should you need assistance during the conference, please signal an operator by pressing '\*' then '0'. We request you to stay connected. The conference will begin shortly.

**Saurabh Mukherjea:** Good afternoon, again. Thank you for coming. This is quite a special day, quite an interesting day. A year ago I remember sitting at my desk and hearing about Mr. Bharat Puri becoming MD of Pidilite and the reason it was quite a unique occasion for us was that it was one of those few occasions where a family run Indian firm brings in an external executive, a professional executive to run the business. So we were all very intrigued and obviously as analysts we were very curious and immediately the call went into Bharat's office for him to tell us what his vision for the firm was. And very firmly but politely, we were rebuffed for over a year when we were told to let Bharat settle in before he gives you his picture of Pidilite's future strategy. So I am glad to say that after much persuasion and coaxing, we managed to persuade the management team, Apurva Parekh – the promoter; Bharat Puri – the MD and Pradeep Jain – the CFO to come and talk to us about how they see Pidilite evolving from its already very distinguished history. So the way we will format it is, Bharat will give a presentation and then we will do a Q&A with the management fielding questions from all of you. So over to Bharat without further ado. Thank you.

**Bharat Puri:** Good evening, everybody. Happy to be here, we have had requests from a lot of you saying you want to talk to Pidilite and I thought this is a good opportunity to just take you through our thinking of where we are. As we look at the presentation, obviously there will be a lot of things that you already know, so please I am not going to talk you through every slide and every line of every slide, we will leave enough time for questions. So what we really just try to put together is Pidilite today, how do we see the future more from a strategy and what we will do point of view, how do we see ourselves and then most importantly how do you see us and what are your questions of us. That is hopefully what I would like to cover in maybe the next 30 to 40 minutes in a presentation sense and then we will keep it open to questions. So without further ado let me get going.

Starting the company overview, every time I tell the Pidilite story there are always things that surprise people. And while again I would not read everything here. I think what distinguishes Pidilite from most of the companies is we are pioneers, and I do not mean pioneers in a self-congratulatory patting ourselves on the back sense. When I say pioneer, Pidilite has a very simple success formula, we spot what we think are un-served or under-served consumer segments. We normally fill those with a brand, not with a product but with a brand and then we

persist. What you do not see a lot of the times unless you are familiar with our categories is we also have probably one of the strongest influencer-user programs where we work with users, because in most of our categories the user and the buyer are two different people, the user and the person who actually buys the product. And that has really been Pidilite success formula whether it is Fevicol, whether it is M-seal, whether it is Dr. Fixit. That is pretty much the Pidilite secret sauce, if I may say so. Our revenue were a little over Rs.5000 crores last year, we are obviously present in every nook and corner of India, we are also now in a large number, in fact there is a very interesting exercise going on in Pidilite to figure out how many countries do we sell in. We have crossed 100 but 100 includes wherever we sell any little quantity also, but we have a substantial in 14 places where we have operations and we will talk about that.

The other thing which we have been in the process of doing over the last five to seven years as we build the Pidilite of the future is building a leadership team of the future and over time we have for example, pretty much refreshed the whole Pidilite leadership team, keeping the best of the old but bringing in a lot more talent from the outside. Internally, we call this Pidilite 3.0. Pidilite 1.0 was the original company which Shri. B.K. Parekh, our founder founded. Pidilite 2.0 was the company that our Chairman pretty much built and we are now in Pidilite 3.0. What we are proud of is our simple mantra is profitable, sustainable growth and I do believe over a 10 year period on both top-line and bottom-line we have consistently displayed that. A lot of you analyst friends tell me that we are in the top quartile and I am happy to say that, this is where we would want to stay. Therefore, if you have a track record of sustainable profitable growth, then you do create value for shareholders, both in terms of shareholder value and dividend payout. Our market cap has gone up at an average of about 28% over the last 10 years, which I think is not too bad.

On a business overview, about 85% of our business is the consumer branded business, about 15% - 16% is the industrial B2B business and in the industrial business obviously we have adhesives and resins and we are also in the pigment business. A lot of times what happens is every time we talk about adhesives, people assume adhesives is equal to Fevicol. It has been a learning process for me. I have been associated with Pidilite now for about eight to nine years. Those of you who fly regularly, let me scare you a bit. Do you know these days, wings of an aircraft are actually put together by adhesives. There are no nuts and bolts anymore. The seats on every car these days are adhesives, if you look at a car for example, all the paneling, the windscreen, etc. In the good old days if you scratched yourself, you put a Band-Aid, you now put a medical adhesive which is invisible but cures and does the same job. Dental has become a big area for adhesives obviously, footwear is a massive area, the whole area of packaging whether it is consumer products, or children's diapers. The whole area of packaging is a massive area for adhesives. So when we say adhesives it tends to get all branded as one adhesive. Actually it is a massive area across a large number of both B2C and B2B businesses.

We also have our construction chemicals, waterproofing business and legacy paint business which also contributes about one-fifth of our turnover.

So a little more on the consumer and bazaar products. It is adhesives, sealants, construction, paint, chemicals and art and craft material. I am sure at some point in school when you did your school craft projects you used the famous Fevicol and Fevikwik, I can see a lot of you nodding, that continues. And as I said, remember what defines Pidilite is that it is a pioneer in category creation. I always tell the story of M-seal, the M in M-seal stands for Mahindra, we brought from Mahindras. It was a small brand between Rs.10 crores and Rs.15 crores. We applied the famous Pidilite success formula where we created a brand. If some of you remember the old ad of 'ek tapakti boond aapki kismet badal deti hai'. Now that is entrepreneurial risk taking. We put out a 70 second ad in a category for a brand that was Rs.10 crores for us, now fortunately for us the brand is 15 times that size. We worked with users, in this case the plumbers, created the brand and overtime it has become the household name for anything to do with plumbing. The same example I can give you for Fevicol, Dr. Fixit and of course Fevikwik.

The point I would like to make is, a lot of people keep asking, "But you guys have a strong position in all your segments therefore how is growth going to happen?" And my answer is always very simple. We are blessed with categories where we still believe that at the core, there is a strong headroom for growth. In most cases, our categories pretty much correlate to GDP growth and therefore as long as our economy keeps growing, construction keeps happening, new homes keep being built, old homes keep getting repaired, and our categories tend to grow at rates faster than GDP. And therefore I always tell my team that it is always nice to get excited by the new stuff but a large part of our growth will always come out of growing the core, at least as far as all of us around this room as far as our eyes can see. And therefore it is good to be in a situation where growing the core is as critical as innovation, getting into adjacencies, etc.

The industrial business, as I told industrial adhesives and resins are used across, we also have a pigments business, we are a strong exporter of pigments and whether it is packaging, stickers, labeling, we have got a whole set of industrial B2B businesses which are steadily growing and are nicely profitable. I think one of the things that is fascinating, whenever you tell somebody that you work for Pidilite, the first comment you always get is your advertising is very good. I think we are very proud of that, I think Pidilite has created a set of brands across time and I am sure a lot of you know that when our Prime Minister went to Japan, in his official speech he said that India and Japan ties are bound together with Fevicol and poor Japanese fellows were immediately sending little text messages all over saying what is this Fevicol. So I think the fact that Fevicol has become an adjective in India rather than a proper noun is a testimony to our success.

What you do not see, while obviously you as consumers see a lot of the work that we do, the advertisement we do with consumers, we also pretty much have an equally strong grass root contact program with influencers. One of the best examples I can give you is sometime last year when I had just come back to India, my parents live in Chandigarh, and my father has retired from the army they live in this beautiful town. And my mother rang me up and told me that the cupboard has got eaten by termites so I have to build a new cupboard. In all small towns you have a regular carpenter who comes once a year, does any repair, so I said have you called Raju. So she says yes I have called Raju and he said we have to get a new cupboard because the old one has to be given away. My Fevicol sales head was sitting in the car with me when I was having this conversation. So he said do you have a problem and I said yes, there is a carpenter handling it, don't worry. The fascinating thing was by evening just on the basis of the fact that there was a Raju carpenter in Chandigarh who was working in Colonel Puri's house, he was on our database, actually there were four Raju's on a database, the right guy was established, a guy had met him, given him exactly what he has to use, how he has to use it and how he has to treat termites. And I wanted to give you this example, my parents at least they thought I have joined the right company because that had never happened. But having said that, that is the power of our influencer program which you do not see a lot of the times. On a regular basis, we have 120,000 carpentry contractors who we call on pretty much once every two months who are part of our program, so on and so forth. And when you create strong brands, a lot of times you see the communication, you do not see the work that happens beneath the surface where this is the proverbial duck paddling very strongly beneath the surface. So that is around our marketing and advertising.

On a global business, as I said now we substantially export to over 60 countries, export turnover is just a little less than 10%. We have 16 overseas subsidiaries. Let me just take you through a little more details. In fact, right now the largest subsidiaries for us are the US. There is a trend now in the US around adult coloring. The best stress buster these days is supposed to be adults using their old crayons, what we did as children with crayons and coloring etc., now adults are doing and therefore that is helping our business tremendously because obviously we are into the art and craft material business in the US. Brazil as an economy remains really challenged. Of the BRICS economies, it is the one that is suffering the most. Having said that, we have still managed to actually reduce losses and actually not lose any cash this year. Where obviously we continue to do well is SAARC. Bangladesh is a growing and profitable business, in fact we see that expanding fairly fast, we have also acquired largest adhesives brand in Sri Lanka which obviously we see as an area of growth. And we also see Africa. If you ask us going forward how do we see our international business, we see international as a good part of our operations where we are able to reapply the India success formula. We believe there is a large part of the emerging world, be it in Asia or in Africa where the India success model can be applied. I used to always joke in my old global job that all the countries in Africa are like different states of India. Nigeria may be a little more like Bihar and Ghana maybe a little more

like Haryana. But if you have got a good success formula for emerging markets it can be very successfully applied in large parts of emerging Asia and Africa and that is really going to be our direction going forward.

Again on the macro opportunity, when I was talking to you about the growth opportunity, really what we are encouraged by is actually four things, one is obviously the GDP growth, we find that our categories have a direct correlation to GDP growth and therefore as long as the Indian economy grows steadily so do we. Rising urbanization, obviously is something again that is very advantageous to us. We also see over the next 12 to 18 months that construction industry coming back to growth, I mean all of you know that the real-estate sector, the construction industry is being challenged over the last 12 to 18 months. We also see a massive opportunity actually in what we call the small towns of India, when I say small towns I am talking about 700 to 800 towns which have population of about 50,000 to about 200,000 and the 600,000 villages between 0 and 50,000, of that in our belief there are at least 100,000 villages where there is substantial potential to be tapped and I will talk about how we are going to do that. While Pidilite is obviously the most well-known and used brand in a lot of these towns, we still believe our benchmark should not be ourselves but should be the best consumer product companies and what they are doing in this area and therefore we see this as another driver of growth.

Really, you know that the GDP growth story is intact, the estimate is that in the next 15 years or so pretty much two out of five people will live in cities. If they live in cities, obviously construction and urbanization helps us. We are seeing the construction industry come back and is predicted to come back fairly strongly, which correlated pretty much directly with our business. And therefore we are fairly confident and optimistic about the future is the best way to put it. One of the first things we did last year was, in a business as successful as Pidilite, it is important to make a set of choices and we did a whole strategy refresh exercise. We called in a set of global consultants and said that we do not want to do a traditional strategy project which is where to play and how to win. What we want you to do is three things, one, we want you to abstract for us what makes Pidilite successful and how do we institutionalize that as we get bigger. The second is, let's take a view on our categories and adjacent categories, which are the ones where we can play a pioneering position because they are set to grow aggressively in the future. The third is obviously how do we set an operating model and a culture that supports both A and B. So really what we came back to is that we have a lot of scope to take existing businesses to full potential, this is the point I made to all of you about growing the core. We still believe the substantial part of our growth will come out of growing the core. As I said, we believe there is still a rural and small town opportunity which, as Pidilite, we have a lot more to exploit. We also have a lot of adjacent opportunities. The fascinating thing is pretty much once every week, we have somebody from some country or the other coming in to tell us why they believe they should partner with us because they believe India is the future and we

thought it is important for us to take that view and then be proactive rather than keep receiving people. And as analysts, all of you know this, all of this needs to be supported by an aligned energized organization because in our belief, growing the core, doing the right innovation and having an aligned energized organization is frankly the best way to create shareholder value.

On accelerating sales growth, the fascinating thing is that in most of our categories still, penetration is limited. There is a substantial scope to increase consumption, in some categories there is a scope to increase market share and there are a set of identified international clusters where we believe we can take our success formula and run it very aggressively. One of Pidilite's secret sauce has always been innovation, if you look at our track record that is again something we need to do more of. We need fewer, bigger, better innovations and obviously we are putting in processes. Marketers will tell you that the Stage Gate process is recognized as the right process for administering innovation in large company and we have obviously put that into place.

The small town opportunity, all of you know the 1 billion consumers, what we are basically looking at is we have done a fairly extensive study across about 770 small towns, worked out what we need to do and across the next four months you will see us take a set of actions which enable us to put our resources on the ground. For most of our categories, demand creation and distribution go hand in hand, we are not a traditional consumer product like a sweet or a chocolate that I put the product out there, once people taste it, it automatically generates a demand. In a thing like water proofing or Fevicol or in any of our maintenance products, we need to educate users and therefore we are now putting in an organization which will actually focus just on the small towns, largely because we believe the size of the opportunity is probably larger than a lot of large innovation opportunities. So that is in progress.

And of course we are looking at new opportunities, we have announced two of them, I will just talk you briefly through the logic because a lot of you keep asking what the logic is. On premium wood finishes, very simple logic, anybody who makes furniture in India, at least seven or eight out of ten of them end up using our product. Our point is can we make sure that all of the branded products we have a play in, so whether it is the adhesive or whether it is the finish. So we did a study and we realized that this is again a category and premium wood finishes in India we believe is going to be a fast growing category. One of the world leaders, in fact the leader in India in premium wood finishes is an Italian company called Ica, which we have tied up with, we have done a joint venture with them, we will manufacture products in India because we believe over the next five years this is the category which is set to see high growth and we believe we have a natural right to win there. So therefore that joint venture. The other is Nina Water Proofing, when you look at water proofing especially in large buildings, what we found is if we want a competitive edge and in most cases when you are fighting against companies, it becomes product versus product. We have changed the rules of the game, we have actually acquired two leading water proofing contractors on both Mumbai and



Bangalore and we are thus today in a position to actually say that we will apply and supply and therefore we will give you end to end warranty. In most of the cases when there is a problem, the contractor blames the product, the product company normally blames the application. We are saying we will do this integrated and we see this again therefore as services increase, the guys who provide the best service along with the product will win and therefore that is another adjacency that we are looking at. Obviously we keep looking at many adjacencies if they make strategic and value sense for us. That is a process which is in place.

So really going forward as far as Pidilite is concerned, we are passionate about pioneering segments and achieving significant leadership. This is largely done out of a deep insight into each of these domains and we work on what is part of Pidilite's secret sauce. We have this program called Major Initiatives, which are rolling across time but we are clear that over time, this is how we work. Innovation is part of our DNA and therefore persistent innovation, supported by holistic brand management that creates a strong emotional connect with users, influencers and consumers and then an aligned, energized team working together with passion. I have always felt that the best strategies are those that I can explain to you in a lift ride of three floors. So really if I was to say what is Pidilite's strategy on hand, this is truly it, pioneer by creating strong hands, work with influencers and users, keep at it and make sure that you have got an aligned, energized organization. That is really the Pidilite of the future.

An therefore in summary, I think we have a strong position in most products and segments, well trusted brands, strong financials, consistent dividends and I am sure what you really want to do is ask a few questions. So I have tried to keep it as brief as possible. All of us are happy to answer any questions.

**Minakshi:**

Hi, this is Minakshi from IDFC Mutual Fund. So you emphasized on innovation being your major growth driver for you going forward, can you elaborate on the latest innovations that you have done in any of your product categories, how is your reaction?

**Bharat Puri:**

Actually on a consistent basis, innovation has been one of the reasons of our success. So as I speak, for example, if you go out in the market you will see a new Fevikwik Gel that has just been launched, it is out in the market, clearly we believe there is an opportunity there. Therefore, that is one of the new products you will see across. In our water proofing business, you will see a new product, Roof Seal Flex, which is a flexible coating for roofs. So each division has set the reservations on a regular basis and this percentage of our sales, it is a regular part of an ongoing business, we believe that is one of the things that always sets us apart.

**Minakshi:**

Okay. Can you tell category where you have a scope of market share gains, most of the categories which you are a leader and you already have a significant market share?

**Bharat Puri:** I will give you a counter intuitive argument. I actually believe in all our categories we have scope for market share gains, but not market share gains by pulling down anybody else. Our belief is if we as a leader strongly grow the category, we get the maximum growth out of the category. So on a consistent basis what we keep trying to do is category growth, and therefore over time our markets have risen not just because we have taken share from somebody else but we have taken the larger share of the growth that happens in the market.

**Minakshi:** Category so depends on how the external environment is, right.

**Bharat Puri:** Partly yes, partly no. Let me give you a simple example of water proofing. Eight out of 10 Indian homes have a water proofing problem, probably two out of 10 address it effectively. Therefore our job is if the two becomes four that still is massive, which is doubling the market. Yes, the people are helped when they have more money in their pocket, so there is a correlation to economic growth. But in a lot of cases, it is also sensitizing people to the need. I mean a lot of times people do not water proof or repair properly before repainting and therefore the painting gets spoilt in two years. If you can actually get that whole process of education done much better, you will actually expand that market much more without direct correlation with economic growth.

**Participant:** Hi, I am Chinu Gupta from Tata AIA. You talked about innovation and more interestingly you talked about joint venture and acquisition, is that how you see the way forward as well, not just maybe in India but off shore as well?

**Bharat Puri:** I would say we are open to acquisitions both in India and internationally as long as: a) there is a strategic fit, and b) we believe there is a value creation opportunity. Absolutely yes.

**Chinu Gupta:** Does this increasing usage of MDF or engineered wood as we call, does it alter our growth expectation for Fevicol in any way?

**Bharat Puri:** I always keep giving this example that all of us see Fevicol as this one brand Actually, whether it is MDF, PVC laminates, acrylic laminates, there is a Fevicol which is for PVC and acrylic, there is a Fevicol which withstands heat. We have a range of adhesives across all of these ranges and hopefully we are always alive to changes in trends in the market and then understanding therefore what we need to do there. So we will have actually pretty much a program to keep looking at even affinity markets and see how they are changing in terms of both wood and laminate usage and therefore what we need to do in woodworking to give an example.

**Chinu Gupta:** And sir secondly, the entry of bigger players, I am sure you expected this question, the entry of Asian Paints, one of the big names, how does it alter your work? Because obviously other

MNC players have never been a threat to Pidilite because of the ground work that we talked about, but this is another company which is equally good in their own channel.

**Bharat Puri:**

I do not know if you know but I actually worked over 16 years in Asian Paints. I started as a young trainee and ended as head of sales and marketing, before Cadbury said chocolate tastes better than paints, so come to Cadbury. So I know Asian Paints well. I have a lot of regard and affection for the company. I just believe in each of these areas, Pidilite is not a stranger to competition. Yes, Asian Paints is a good competitor. But, we have had Henkel, we have had Huntsman, and we have 3M, I mean internationally. A lot of people would regard these as strong competitors. In a lot of these areas, for example water proofing, where Asian Paints is currently focusing attention. Actually a lot of times, the entry of competition helps accelerate category creation much faster and, where we have got our act together, we should also gain a lot more out of the category we created. So as we said, we are focused on doing what we believe is right and as far as competition is concerned we are alive to it, we do not for a moment take any of them for granted or take any of them lightly but we have not built brands over a period of time without the requisite experience.

**Shiladitya:**

Good evening, sir. Shiladitya from ICICI Prudential Life Insurance. Sir, couple of things I wanted to understand. Given that the drivers you said, urbanization, premiumization broadly, so therefore it would be fair to expect that CAGR of 16% we have seen over the last few years, we should be able to match that or do better than that. Second thing you said was that a lot depends on the growth of construction, could you elaborate on that?

**Bharat Puri:**

On the first, I must tell you at a personal level, one more thing that really fascinated me about Pidilite. If you come from a multinational background, and I spent my last 17 years in a multinational. It was called different things but it was the same multinational. In multinationals, every quarter end, we really tried to burn the furniture to make the numbers. And therefore, they set number targets and keep going around the circles trying to do them. What I love about Pidilite is this whole concept of doing the right things and the numbers are a consequence. So I would not know whether 16 is good or bad, we are clear that these are the drivers of growth and as long as we have got adequate focus, resources and energy behind, we are going to win and that is what we are going to do. So going forward, we are clear this is what helps drive our growth and this is what we are going to do. The second part of your question is about construction. Every time a new building is built, there is going to be new furniture, there is going to be obviously water proofing and therefore our categories correlate much more directly to that. Greater rates of construction, if you saw that boom years of construction till two years back, you would have seen rates of growth were higher. But largely what we find is, our growth is the function of new construction and repair. Repair tends to be a little less driven only by the construction industry, it is driven by economic growth. So we are happy when the construction industry does very well, but it is not that if it does not do well, we do not do well.

**Hemang Kapasi:** Hemang Kapasi from Canara Robeco. Sir, do you participate in institutional waterproofing businesses, since you elaborated on construction so do we participate with builders and bigger guys or just we restrict ourselves to the B2C business with consumers buying water proofing solution?

**Bharat Puri:** So our strength in water proofing is retail, but over the last three years we have built now a strong institutional business. So for example, the Renaissance in Powai is done with our products. A lot of these buildings that are coming up in Parel, actually the water proofing is with us. So, we have a strong large growing institutional business across the country and an area of absolute focus. And as I said, we now have the advantage where we go to people and say we will supply and apply and therefore we will give you an end to end warranty for water proofing rather than just give you the product.

**Hemang Kapasi:** Can you just roughly give the market size of this category?

**Bharat Puri:** It is very difficult to aggregate, it is a few hundred crores, largely because most of our competitors are multinationals or private. In developed markets, institutional to retail can pretty much be half and half. I won't venture a guess on India, it will just be a guess.

**Divendra Singh:** Hi, this is Divendra Singh from Kotak Mutual. If you look at the current trends on the urban side you are looking at more ready to assemble or ready to move in furniture, so this is largely institutionalization of entire industry which is being going on. Now do you think that going forward a decade or so later say with the carpenters or the influencers therein would actually get reduced as a more mind decision in place of that and wherein on an institutional side of the business your margins would be rightly be maintained therein. So do you see some pressure on the long-term profitability of your segments?

**Bharat Puri:** This question is regularly asked. What we are seeing is while the institutional segment is growing and probably as a percentage growing faster, it is still fairly small. Incidentally, we also have a very strong presence in the institutional segment. Having said that, if you look at the last 10 years and we have looked at affinity markets like Thailand, etc. to see how this will change. In India, our belief is that while this will increase, equally there will be a larger number of people coming into the first time furniture or redoing furniture or getting better furniture. So, over the next five to ten years, we do not see a substantial change. It is not going to disrupt the market. I mean the bottom-line here is that if you talk to anybody internationally, they would give a right arm and leg to actually have custom made furniture. So if the consumer has a choice in India, given the hassle, it becomes convenient. But over time, custom made furniture will always win over readymade furniture, in most cases largely because of the customization element.

**Chanchal:** Hi, this is Chanchal here from Birla Mutual Fund. Any learning from last year where we have seen 700 basis points gross margin expansion, so is there some competition which is coming in, people touched upon Asian Paints and Astral Poly, so there are competition coming in. But do you think this pricing advantage which you have, this pricing power you have can continue, any view there? And the second question is on the paints you touched upon, so any view because that space therefore big players.

**Bharat Puri:** I was wondering when that question will come. So, let me answer the first part of the question. I keep reminding my team that we all believe that enlightened management always wins, declining input cost can be the largest contributor to our bottom-line rather than anything else. Will that continue? My frank answer is no, and that is not because of the competition, etc. We just believe that as a player who participates across the mass of the market, we would like to keep our price premium as one that does not price us out of any of the large segments of the market. And therefore we are clear that in the end the best definition of brand equity is your ability to command a price premium but we always have worked with a reasonable price premium and that is what we will work with. Therefore if raw material prices go up, it is not that we will keep the prices, we will make sure that our premium remains where it is. As far as competition is concerned, frankly as I said we are not stranger to competition. I mean Astral has taken over an existing adhesive company that existed for 10 years before that. And Asian Paints, as we said there is water proofing, they have also come into adhesives, it takes years for organizations to build brands. As far as paints is concerned, it is seen as one category. Paints is equal to actually wood finishes plus exterior finishes plus interior finishes. We are actually already in both wood as we announced via our joint venture and in exterior via water proofing. It is just not an area of high focus for us. Is it changing rapidly in the next few months? Absolutely no, we have got enough on our plate anyway.

**Shariq:** Hi, Shariq from Ambit. So 20% - 25% of your revenues is paints and chemicals and in your speech you referred to that as a legacy portfolio. So is that how we should look at the business?

**Bharat Puri:** Actually, 20% is construction chemicals plus paints. Paints is a much smaller part. Actually construction chemicals are a much larger part of that business but that is obviously not a legacy, it is a growth area. So paints is much smaller because we have got distempers, we make strainers which actually get exported, which is tinctures really which comes out of our pigment business. Therefore, that is not an area of high focus for us, it has been a traditional business which is a steady business.

**Shariq:** Being a low end...

**Bharat Puri:** Yes, being a lower end. Whereas construction is also an area of high focus for us.

**Fernandez:** Hello, Fernandez from Tata Mutual Fund. As you described that this is Pidilite 3.0 and we are professionalizing the company. Can you talk about focus areas in terms of changes in systems and processes that are taking place in Pidilite? Similarly, with respect to human resource or even in terms of your distribution, your front end, any specific changes that are taking place? Secondly, while we know about the influence of programs that you have with the carpenters, any other grass root programs etc. that you could probably touch upon in detail for your construction chemicals and M-Seal business also?

**Bharat Puri:** The first part. In any evolving organization, you will always have a very strong human resources agenda. So in fact, we are in the process of evolving. In a successful company like Pidilite, what you need is evolution to keep up with the times rather than revolution. It is already a successful company that needs to keep evolving to keep change with the times. So in both systems and processes, each structure and each operating system, we have got consistent change happening as an organization. I can talk you through many of these changes. But I think those would be standard changes for any organization that aspires to be a leader. So we have got a lot of stuff happening, in fact we have a new chief HR officer in place who is actually driving a lot of that change. As far as influencers are concerned, like I spoke about carpenters, we have skill water proofers, we have program for water proofing contractors, a program across plumbers, across auto mechanics. Across each of our influencer segments, we will have a program that works with each on a consistent basis to educate about our product, show usage, to keep them abreast of new developments. We have a strong field marketing organization whose focus remains across all our sectors, not just one.

**Fernandez:** And any restructuring in your distribution?

**Bharat Puri:** In distribution, as I said, we are doing two things. One, we believe that we can accelerate capitalizing on the rural and small town opportunity and therefore we are going to put a lot more focus and resource there, so that in a sense has changed. The second is, we are looking at ways in our urban structures of how do we make sure that as we get bigger, we take decision making closer to the field, so we have got some changes happening there.

**Participant:** Could you talk about your international ambitions for the business, particularly given that you talked about the challenge of creating demand and the influencer program that you have. So when you go to Africa for example where you worked previously with Mondelēz, how does the business work because our understanding is that it would be a much more commodity business there where branding will not be as important. So how do you translate what is a branded business here today to international geographies?

**Bharat Puri:** In most of these cases, Pidilite's formula is to take a commodity business and transform them into branded business. That is our success formula whether it is Kenya, Ethiopia or Mozambique, etc. Therefore, we have programs with influencers at these places. We have a

branding program over time, therefore building brands and relationships with dealers. So, a large part of this is really the reapplication of the India success formula. We have reapplied with energy. Maybe Apurva can talk a lot more about the other international businesses.

**Apurva Parekh:** It is largely correct and we have demonstrated this also in Middle East and Bangladesh where we applied the principle that we have in India to slowly build a business. Like when we entered Bangladesh market Fevicol was not a well-known brand, but we did a lot of grass root activities and over a period of time, we are now the market leader there and Fevicol is as well-known as it is in India. So we tried the same thing. We also looked for unmet opportunities in those markets where some of the products have very low consumption in those countries. So we tried to use the India model at least in all of our emerging countries.

**Participant:** So is it fair to say that you would not be looking for acquisitions in these geographies and build it organically or you would sort of open to...

**Apurva Parekh:** Looking at an acquisition opportunity like we just did in Sri Lanka, where we acquired the largest adhesive brand, if we were to find a strong brand in a country, we may consider an acquisition.

**Participant:** And finally, is that in your sort of 3.0 program how important is the international leg of the business?

**Bharat Puri:** See, it is a very difficult question. Is it critical to our business? No. Is it important to our business? Yes. And therefore it is an area of focus. Over time, we would like to achieve the same success in a set of markets that we have achieved in India. But we are also clear that there is no instant switch, where we will switch it on and it will happen in the year. But, we will keep building across set of countries as we go forward. So it will remain an area of focus.

**Pravina:** Hi sir, I am Pravina from Ambit. I was just curious about how you think about your distribution and inventory management, given that you have several SKUs, some very low value also like a Rs. 20 and they all have to be available across the country when your customer wants them. So how challenging is that? I think you do a fairly good job on inventory days, is there scope for that to improve further?

**Bharat Puri:** See, distribution in India is always work in progress. It does not matter which company you are or in which category you are. It is always work in progress given the distribution universe. Therefore, we are at work there. As far as inventory is concerned, we actually are putting in SAP, we have re-worked our distribution systems over the last two years, has it reached where we want it? No. Has it improved tremendously? Yes. Are the inventory days a large opportunity, I do not think so. But in my internal meetings, I still keep telling Pradeep that they are.

- Sushant:** Hi, Sushant from Ambit. In terms of GST, what is your outlook?
- Bharat Puri:** We have not still fully actually got our arms around GST and the process. I would rather have a considered reply once we have done the full study because otherwise it becomes anecdotal.
- Pradeep Jain:** But having said that, GST typically will provide a one-time opportunity to relook at your network etc., which Pidilite like any other organization will also explore. It will provide a one-time opportunity.
- Sushant:** And another question, you talked about a Rs.5,000 crores company, so what is the vision of the company for next 10- 15 years, I do not know whether 3.0 is for next five years or 10 years or 15 years. So you are yet to become from almost \$1 billion to a \$10 billion company?
- Bharat Puri:** One of the things which we have avoided and is part of Pidilite's tradition is, putting numbers to this as I was telling somebody else in different context. I have been a part of organizations where the number becomes the millstone around everybody's neck because the environment keeps changing. I would like to say that we will always be a high performance, world-class company, which consistently, hopefully, delights customers and its employees. That, to my mind, is the way that we would look at it and therefore we will like to be a top quartile performer. We would like to be a company that is known as innovative, that keeps doing great things with consumers, influencers and its own employees. I do not like to put numbers in because these things over time become self-fulfilling or, at times, you tend to shoot yourself in the foot because you made those commitments.
- Saurabh Mukherjea:** It seems that there are no more questions. I will just take liberty of asking Apurva one question and then hopefully unless people have more questions, we will break for tea. Apurva, there are several different models that we are seeing evolve in India where family run businesses are bringing in executives to run the business so there is the Burman family model where there is a family council which meets I think once a quarter, but executives clearly run the business. Then there is Harsh Mariwala who has handed over charge of the business to his MD who is MD and CEO now. Then there is Asian Paints model where different parts of the family, each takes responsibility for one leg of the business and then there is an overall CEO for the business. How is the Parekh family thinking about this evolution, what sort of model you will follow as you have professional MDs running your business?
- Apurva Parekh:** So, what we have decided is that for this phase of our transition or this phase of 3.0, a couple of family members would remain engaged in the business and would support Bharat in overseeing some of the division and functions. So this is the current thinking where couple of family members, including me intend to remain active and support Bharat in whatever way we can in overseeing and managing the business and helping in new growth areas. This can evolve over a period of time as and when the need arises. We, as promoters, are very clear that the key



thing is that Pidilite has to do well as that is how we will benefit the most. So our intention is to help out and in this phase, we feel that helping and overseeing some of the divisions and functions would be most useful. This would allow us to retain what was good about Pidilite and embrace the good that comes from outside.

**Saurabh Mukherjea:** So my external perspective would be, it sounds akin to the Asian Paints model, it is interesting that not only Bharat but half of your executive committee, from what I can make out, has had its roots in Asian Paints. So a very interesting day. Thank you to all three of you. Thank you folks for your questions. Thank you very much.

**Bharat Puri:** Thank you.

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*(This document has been edited for readability purposes)*