

11th August, 2016

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Dalal Street, Fort
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,
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Mumbai - 400 051
Stock Code - PIDILITIND

Dear Sir,


Sub: Transcript of the Earnings Call

We enclose herewith, a transcript of the Earnings Call held by the Management team of the Company with Analyst/Investors on 2nd August, 2016.

Kindly take the same on your records.

Thanking You,

Yours faithfully,
For Pidilite Industries Limited



Savithri Parekh
Secretary



**“Pidilite Industries Q1 FY 2017
Results Conference Call”**

August 2, 2016

**ANALYST: MR. KRISHNAN SAMBAMOORTHY - MOTILAL
OSWAL SECURITIES**

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



*Pidilite Industries
August 2, 2016*

Moderator: Ladies and gentlemen good day and welcome to the Pidilite Industries Q1 FY2017 results conference call hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal 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. Krishnan Sambamoorthy from Motilal Oswal Securities. Thank you and over to you Sir!

Krishnan S: On behalf of Motilal Oswal Securities welcome to the Q1 FY2017 results conference call of Pidilite Industries. We have with us Mr. Apurva Parekh – Executive Director and Mr. Pradeep Jain, the CFO. Over to the management for opening comments followed by Q&A session!

Pradeep Jain: Good evening everyone. Welcome to Pidilite’s Q1 Financial year 2017 earnings conference call. Let me begin with a few comments on the macroeconomic front. While the demand environment has been challenging, we are hopeful that the good monsoons in India will provide the much needed push to rural demand later this year. The likely passing of the goods and service tax should also play a key role in lifting consumer sentiment.

I will now move onto the business highlights for the quarter. It has been a quarter of steady volume growth across our product categories. A quick update on the domestic acquisitions made over the last couple of years. They are all on track and doing well. The order book position in the waterproofing services subsidiary Nina and Percept is healthy and looks promising.

Bluecoat and Falcofix are doing and growing well. ICA Pidilite, the joint venture with ICA, has been operationalized and has begun to contribute to the growth in the quarter.

An update on the synthetic Elastomer project - some of you may have observed the notes in our announcement. We have opted for the fair market value approach enabled by the Ind-AS transition and based on an independent evaluation have brought down the carrying value of the assets.

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Moving onto the financials for the quarter, we have adopted the Indian accounting standards with effect from April 1, 2016. Accordingly, the standalone and consolidated results for the quarter ended June 30, 2016 and comparable quarters of the previous years have been prepared in compliance with the same.

Our standalone gross sales for the quarter grew by 7.1% over the same quarter prior year, with underlying volume mix growth being 9.3%. This was driven mainly by 7.6% growth in the sales of Consumer and Bazaar products and the 4.2% growth in the sales of industrial products.

EBITDA before non-operating income and exceptional items was higher by 18.6% over the same quarter last year. Profit before tax grew by 21.7% and profit after tax grew by 20.3%. On a consolidated basis, gross sales grew by 8.6%, EBITDA before non-operating income and exceptional items grew by 15.2%. Profit before tax grew by 18.1% and profit after tax grew by 16%. With this, I would now like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have the first question from the line of Avi Mehta of IIFL. Please go ahead.

Avi Mehta: Thanks for taking my question. The volume growth or the value growth now coming in single digits, would you still maintain your target of mid teens growth or do you expect it to take longer than earlier expected?

Pradeep Jain: Avi, if you look at our last four, five, six quarters, I think volume growth has been in the range of 12%, 14%, 9% and we believe that our volume growth has pretty much been in the same range and value growth because of the commodity cost environment, etc., is trailing volume growth. Mid teens is an aspiration, as you historically know we have never given any guidance on our growth, but that is an aspiration and yes, you are right that right now we are falling short of our aspiration.

Avi Mehta: Sir just a bit on the margin front, typically we have seen is first quarter versus fourth quarter the other expenses have broadly remain flattish, while I look at the other expenses not material change to the base number between Ind-AS and I-GAAP, so can you explain what

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has happened as there been a lower ad spends which is why the other expenses are, you know, have seen a modest growth or is there any other reason?

Pradeep Jain: Avi, again A&SP spend is a large driver, if I remember Q4 we had some media campaigns which would have led to a higher A&SP spend in Q4 and Q1 we may not have had that, that could have led to a normalization of that.

Avi Mehta: Should we expect this growth rate to kind of moderate or change as we move forward or is my understanding is that one off over here is what I was trying to understand?

Pradeep Jain: No Avi, there is absolutely no one off and we do not look at it the way you are looking at it. Our media campaigns are in line with our marketing calendar and they actually do not follow a quarter on quarter kind of trend.

Avi Mehta: Fair enough Sir, lastly just Sir the GST impact if you could just highlight for us how would it play out especially how much tax rate we keep paying in each of the categories that we are in. That is all from my side.

Pradeep Jain: Avi right now we do not have a handle on what the revenue neutral rate is, once we get a handle on that we will be in a better position to share the impact on Pidilite. Suffice to say at this stage that as you know some of our plants were exempt from excise and as we have been saying on prior conference calls that those exemptions are falling off and therefore our effective tax rate has been going up quarter on quarter, but where exactly will we net off once the revenue neutral rate is announced, right now we are not in a position to quantify.

Avi Mehta: If I can just rephrase it, could you share what is the current indirect tax that you pay on each of this because you have a very larger portfolio, so could help us to understand what would be the rough range that you pay right now. I take your point that we do not know the revenue till date, but can you just give us a sense?

Pradeep Jain: We have not calculated it in that manner Avi. At some point, we will do that and then share it with the analyst community.

Avi Mehta: Okay Sir, I will come back in the queue for any questions. Thank you very much Sir.

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- Moderator:** Thank you. We have the next question from the line of Gunjan Prityani of JP Morgan. Please go ahead.
- Gunjan Prityani:** Hi Sir, thanks for taking my questions. I have two questions, firstly on your margins I just wanted to get a sense on how the VAM prices are trending right now and anything if you could share in terms of outlook on VAM prices?
- Pradeep Jain:** No material change Gunjan, at this point the only thing we want to say is that commodity prices remain benign. Till when will this benign environment continue? It is always a very difficult call to take, but yes, right now, there is no material change in the commodity price.
- Gunjan Prityani:** But VAM prices would be trending at what \$800, \$900 or even lower than that?
- Pradeep Jain:** Yes, it is around \$900 range.
- Gunjan Prityani:** So basically I just want to understand that it has been almost now I think about five, six quarters where the RM trends have been fairly benign and you have stated in the past that if you see the RM staying supportive for a sustained period you would think of taking some prices cuts or price adjustments on the portfolio, so is that something which we could possibly look at given the outlook on crude prices is soft right now?
- Pradeep Jain:** Gunjan, again if you look at our last two, three quarters you will see probably I dare say that for the first time in the history of Pidilite our value growth have trailing volume growth right, so we have already done, whatever we believe is right and appropriate in terms of stimulating topline growth through a combination of price optimizations, increased discounts to the dealer community, etc., etc., so we have already done that and it has been almost two to three quarters since we have done that.
- Gunjan Prityani:** Sure, I remember you guys had done it last year in second half, but I am just trying to understand is there a possibility of more such price adjustments to push the volume or push the revenue growth over the next year?

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Pradeep Jain: We consider that on an ongoing basis Gunjan and therefore we cannot give a position that whether we will do more, whether we will do less, depending on the need of the situation we will take that decision at that point of time.

Gunjan Prityani: Okay, but it is fair to say that the price adjustments do not really drive the demand in your portfolio, I mean it is fairly in a last stage because if I look at the volume growth trends they pretty much remain in the similar range, so price cuts really do not help right?

Pradeep Jain: Again, I do not want to come to an emphatic conclusion on that front, but yes, there is no 100% correlation between price and volume.

Gunjan Prityani: Secondly on the industrial segment margins now those margins have continued to stay high, so is that structurally we are looking at higher margins in that segment because the portfolio mix has now changed or we should see, I mean it is going to be related to the how RM prices move, because this is the segment which were typically you tend to pass on the benefit to the customer, but we have not really seen that happening in this segment?

Pradeep Jain: So again Gunjan I think we have discussed that on some of the earlier conference calls also about 12 to 18 months ago we had made certain conscious choices in our customer portfolio to enhance margin profile of the industrial products business, beyond which it is simply where we believe we have to pass on, we pass on and yes as of now we have managed to retain some portion of our commodity cost upsides into the P&L.

Apurva Parekh: To add to what Pradeep just said, if you see, structurally, we have changed the margin profile of the industrial business over the last four to five years. The business used to be fairly low margin four, five, six years ago and we have been steadily improving our product mix and customer mix, we have gone out of a lot of low-price commodity type of products and have been focusing on speciality products, with a good focus on product and customer mix, so there has been a steady improvement; however, any time there is a reduction in raw material rate, it aids our efforts, so our current margins are helped by lower raw material prices, but over a medium-to-long term, there has been a structural improvement in the quality of this business.

Gunjan Prityani: Very useful, thank you so much.

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Moderator: Thank you. We have the next question from the line of Atul Tiwari of Citi Group. Please go ahead.

Atul Tiwari: Thanks for taking my question. My question is again on margin, but in a slightly different way, in the standalone business in this quarter the company has added about 28% kind of margin, which is historical high level, so now that you are making so much money in the business and we know that there is a fairly large unorganized sector, so are not you leaving market space open for price undercutting by unorganized player, is that a factor at all or you do not even worry about the competition from unorganized sector?

Apurva Parekh: There has always been a fairly significant price difference between us and the competition. We are focused on brand building, product innovation and other things; however, having said that, we have done some price rationalization or increased discounts in some of the product categories where necessary, but again there isn't a direct correlation that if I were to reduce price by 5%, I will get all the share from them.

Atul Tiwari: So that also means that in case commodity price environment remain as it is today then we are looking at 28% kind of margins and not 22%, 23% kind of margin, is that?

Apurva Parekh: It is difficult to predict and we would not like to do that. It is very dynamic. What I am saying is that this is the position that we have as of today, but this is a dynamic situation. We need to see what the competitor decides. So we evaluate various factors while deciding our pricing policy but as we have said earlier this 28% EBITDA type of margin does not appear to be sustainable.

Atul Tiwari: What will be the sustainable level from a medium term perspective?

Pradeep Jain: Atul, for an organization that has an aspiration to grow, we have said in the past our more sustainable EBITDA margins are in the 19% to 20% range and if you look at broadly steady state crude pricing of probably \$70 to \$80, I would say that is where our margins are going to land, but again it is not a confirmed model.

Atul Tiwari: Okay Sir and my last one is on, could you shed some light on the volume growth in consumer and industrial segment separately in the quarter?

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- Pradeep Jain:** In both the categories, for the quarter, the Consumer and Bazaar volume was about 9% and industrial product was about 11.8%.
- Atul Tiwari:** Okay, thank you Sir, thanks a lot.
- Pradeep Jain:** Please note that it is volume plus mix. We have such a complex portfolio so we do not get volume separately because the units of measurement are very different, so it is taken as volume and mix.
- Atul Tiwari:** Okay Sir thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy of Edelweiss Securities. Please go ahead.
- Abneesh Roy:** Sir, thanks for the opportunity. My first question is slightly structural. Sir we are seeing increasingly imported furniture being adopted especially in the bigger cities, obviously this is a large segment in which lot of consumption happens for your kind of product, so from a longer time is it a big risk and what are you doing to overcome this kind of a risk?
- Apurva Parekh:** Imported furniture as a category has been around for many years and it has been steadily growing; however, at the same time, there is a trend of more and more people coming into wood working both in urban cities and in smaller population centres. Plus there has been good growth in commercial establishments, so a lot of these things require customized furniture, customized interiors, so what we have seen is that, while the readymade furniture has been growing, the wood working has been growing overall with more people coming into consuming it and the people who are consuming it are also doing more wood working in their house, so we find that our wood working adhesive portfolio has been growing at a reasonable pace and we do not expect to see any significant change in this in the near future. This trend has been there for many years and it may continue, but we believe that opportunities will keep arising, so as not to make any significant structural difference in the size of this category. This is our assessment.
- Abneesh Roy:** You are not unduly worried that is how you would like to put?

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Apurva Parekh: You cannot worry too much about such trends and things that may not be in our control. However, if you see, we have been growing lot of other product categories of Pidilite. Our dependence on wood working adhesive is not as high as what it used to be 15 or 20 years ago. We have a fairly diversified product portfolio now, with a number of other strong brands like Dr. Fixit, Fevikwik, M-Seal, Steelgrip, so we have now more diversified product portfolio and much, much lower dependence on one product category.

Abneesh Roy: So you said versus a few decades back it is much lower so will it be in single digits wood working, wood furniture?

Apurva Parekh: No it could be higher than single digits, but now please do not ask me to tell you what percentage that is! We would not like to share that percentage, but it is not single digit, it is higher than single digit, but it is not so high that it dominates our company's turnover.

Pradeep Jain: Abneesh, just to add to what Apurva mentioned on this entire readymade furniture thing. We also continue to make interventions in our organization structure, etc., so that we are in a position to capture the growth in that segment. It is not that we are focused only on the onsite furniture making, we continue to make interventions in our business model and organization structure to capture our fair share of growth in that increasing segment.

Apurva Parekh: Pradeep is talking about readymade furniture, which is manufactured in India, so we have a proper strategy to service that segment, but imported readymade furniture obviously we do not cater to that.

Abneesh Roy: Because Sir I was referring to all these urban ladders kinds of those have been largely imported right?

Apurva Parekh: They are not entirely imported but they are partially imported. India has a very, very large number of furniture factories and we very actively service them, we have a very good product portfolio in that and we have fairly good position in that segment as well, and both the readymade furniture and onsite furniture markets are growing at a reasonable pace.

Abneesh Roy: That is quite useful, my next question is on your new businesses, so this time it has been record rainfall till now, so Nina sales do you see big benefit because of this in the coming

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quarters in terms of distribution and overall synergy where are you placed versus initial period?

Pradeep Jain: Abneesh, like I mentioned in my opening comments, both our waterproofing services subsidiaries' order position is absolutely good and strong and we are happy with their performance and hopefully, yes, the good monsoon should also aid this sentiment.

Abneesh Roy: Last time you mentioned 14%, 15% like-to-like growth, so has it come down?

Pradeep Jain: The growth in the first quarter is slightly down, but like I said we are not so worried about the growth percentage in the first quarter because Nina, which is the bigger of the two, was operationalised in Q1 of last year. We closely monitor their order book position and, like I mentioned earlier, that looks sound and promising.

Apurva Parekh: Abneesh, this is a water proof services business where we service projects and a lot of time the revenue that you see in the quarter also depends on the pace of the project and whether they are moving at right pace, it is not always in our control, so this is clearly not a business in which you can see quarter-to-quarter revenue and growth. The long-term order position and the long-term direction is more important than the numbers for one quarter. Having said that, Nina and Percept both are in good position and we look forward to reasonable growth from both of these businesses.

Abneesh Roy: Sir Nina will be more dependent on new homes or I guess it will be more of second homes, the old homes?

Apurva Parekh: No, it is entirely on new homes and projects. They also do infrastructure type of projects and they will do new projects, buildings and other things but they are not into repair services.

Abneesh Roy: Why you are not doing that because that is a much larger market?

Apurva Parekh: As of now, we have decided not to get into the repair services as it requires different dynamics, different capabilities. The reason we entered Nina was that a lot of large projects, a lot of large buildings required a company which gives them both products and services as

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a solution, so we decided to enter that market, but as far as the repair segment goes, we work very closely with a large number of applicators across India. We work with them in a very close manner and they service the end customers.

Abneesh Roy:

Sir my last question is on the Asian Paints entry you have discussed this earlier also, so I seen a new Fevikwik ad, which says now thicker, etc., so why would you need to do that and now for the three months have happened so Asian Paints how do you see their product because they said that there is some advantage which the product brings to their table versus existing players, so is there any product innovation which you required now because of the new competition which has very large distribution presence ability to really fund in terms of the advertising?

Apurva Parekh:

Our Fevikwik gel is just a normal extension of our Fevikwik product. In Fevikwik we have a very good market position and we felt that there is a need for a thicker gel type product and coming out of our insight we identified a need for a product like this. So we developed and introduced that product. We would have done this regardless of the entry of Asian Paints or anybody else as we have introduced new variants in most of our products like Fevicol, if you remember, we introduced products like Fevicol Marine and Fevicol Heatx and number of further products or in M-Seal we have number of variants. In that way, this is one more variant in Fevikwik which has some different properties as compared to Fevikwik. As far as the Asian Paints entry is concerned, I have said earlier that, in the adhesive segments, there are a large number of competitors, multinationals like Henkel and 3M, large number of medium and small companies, so Asian Paints is one more strong competitor and we are looking at it like that.

Abneesh Roy:

One small one if you can allow, GST gaining share from unorganized and tax rating if you could share your thoughts on that?

Pradeep Jain:

Again I mentioned this earlier; in the absence of revenue neutral rate we do not have the exact impact quantified.

Abneesh Roy:

Let us assume 18%.

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- Pradeep Jain:** Hopefully we should have an upside versus 18% and that is my initial response, but obviously we have to do the numbers.
- Abneesh Roy:** Your rate will be more like 23%?
- Pradeep Jain:** Yes.
- Moderator:** The next question is from the line of Chanchal Khandelwal from Birla Sun Life Mutual Fund. Please go ahead.
- Chanchal Khandelwal:** Congrats on good set of numbers. Just something on the margin that you said 28% is not the normal margin and assume that crude normal rate is \$78, if I assume the crude normal rate is \$40, \$50, what is the kind of margin you can make in the next two to three years?
- Pradeep Jain:** Chanchal, these are the margin we have made with the crude being in that level, but obviously the margin is not simply an outcome of our commodity pricing, it is an outcome of multiple factors, the changing competitive scenario, our pricing in realization etc. We believe that a more sustainable margin is about 19% to 20% and that is broadly on a consolidated basis.
- Chanchal Khandelwal:** Just two take this point a little further, I assume that price of VAM is at what it is. Would you be taking a price increase in one year just because it helps you to manage the inflation and other line items, which you have. What is the pricing policy, which you follow?
- Apurva Parekh:** Pricing policy will depend on different products, segment categories and also on market dynamics, so it is not just a simple policy that I can state. It depends on large number of factors. However, if the VAM going to remain at a low level, it is unlikely that we will have any significant price increase in the next one year. It may happen in some products, but overall if VAM remains at low level, it is unlikely that we will need to increase the price.
- Chanchal Khandelwal:** The GST question, which was just asked, I assume the GST rate is 18%, would you pass on some benefit to consumers? Have you done some match on how much benefit in terms of logistic cost also you make it because of the GST?

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Pradeep Jain: We will have to do that impact assessment, obviously as we mentioned earlier. GST will provide a one-time opportunity to relook at our network and hopefully take some cost out of the system. On the overall tax front, like I said earlier, hopefully we should have some upside considering that we already have a sizeable portion of our portfolio that was excise exempt and therefore our effective tax was not a simple addition of the full VAT rate and full excise rate. So we were anyway in a concessional indirect tax environment. How much of that vis-à-vis the go forward revenue neutral rate that is something which we have to work out, but our prima facie analysis suggests that it will be beneficial to us.

Chanchal Khandelwal: Sorry I missed this part concessional rate, which are the categories you had concessional or was it in the manufacturing you had concessional?

Pradeep Jain: Based on the manufacturing facility.

Chanchal Khandelwal: How much percent of the portfolio would that be?

Pradeep Jain: A significant portion of this is exempt, which is kind of reducing in mix over the quarters and over the years.

Chanchal Khandelwal: Thank you. Wish you all the best Sir.

Moderator: Thank you. The next question is from the line of Amish Agarwal from Prabhudas Lilladher. Please go ahead.

Amish Agarwal: I have a couple of questions. One being that if you look at your growth in this quarter in particular your volume growth of 9% in Consumer and Bazaar, now this Consumer and Bazaar is having increased segments, your adhesives and sealants, waterproofing and your art material. So which among these three segments has held on and which has seen the slow down and secondly with the monsoons being good, so will there be any impact. Has it happen already or will there be any pickup in the demand for waterproofing products, this is the first question?

Pradeep Jain: Amish, we have never historically shared the breakup of our growths within the segment, so we do not want to do that at this stage, but like I said earlier 9% volume growth is pretty

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much in line with what we have achieved over the last three, four quarters. So we are happy with that right now. Having said that yes, it is below our own aspirations.

Amish Agarwal: But has there been any segment in which the impact has been more?

Apurva Parekh: We would not like to share this information on quarter-to-quarter basis, because it is not very indicative and we would share the data only at the year-end. So our segment wise sales and the breakup we share only on an annual basis, not on the quarterly basis.

Amish Agarwal: My next question is on international business. Because in international business if we look at the overall sales door has been pretty healthy in geographies like North America, Middle East, SAARC etc., but across the board margins have seen declined in YOY. Now there is a big dichotomy where the margin in the domestic business are rising, but internationally across geographies whereas in margin compression, so can you throw some more light on why it has happened versus the outlook going forward?

Pradeep Jain: Amish, overall, like you mentioned we are happy with the growth of our international subsidiaries. Now there are couple of reasons why the EBITDA has not shown the same growth. One is we have a big business in Bangladesh and the Bangladesh quarter one of this year is vis-a-vis a period of zero activity in the prior year. So if you look at the numbers, our EBITDA margins in Bangladesh was artificially inflated in the last quarter in the prior same quarter, it was close to if I remember about 27% to 28% EBITDA margin. So that has come down to a more normalized 18% to 20% and that is the big factor because Bangladesh is the big mix in the overall international business. Secondly, in the Middle East business, we had commissioned our manufacturing facility in Q3 of last year, so Q1 and Q2 are actually periods of less fixed expenditure, therefore our margins have deteriorated and you will see that trend over the next couple of quarters also. So they were the two prime reasons that have led to our international business reducing margins apart from them anything else.

Apurva Parekh: Apart from that, in our North America business, there was some inventory provision, which had to be taken due to a product quality issue, so that resulted in some decline in profits. These are the broad key reasons that affected the profit in the current quarter. But overall, the sales growth was encouraging.

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Pidilite Industries
August 2, 2016

- Moderator:** Thank you. We have the next question from the line of Achint Bhagat of Ambit Capital. Please go ahead.
- Achint Bhagat:** Good afternoon. Just one quick question on the Dr. Fixit portfolio; how is that specific segment done in this quarter vis-à-vis the last few quarters? Have you seen any acceleration in the construction chemical business?
- Apurva Parekh:** As we said we would not like to give specific sales or growth figure for any product portfolio or category on a quarterly basis; however, the Dr. Fixit business depends on a number of factors, including how the new projects are happening and how repair and rehabilitation activities are happening. So overall, the business holds very good potential, but we would not like to share the number or growth figure on a quarterly basis.
- Achint Bhagat:** Any sense on a broad number on how much of Dr. Fixit sales through the retail channels and directly into institutional sales?
- Apurva Parekh:** I would say a bulk of the sales is through the retail segment.
- Achint Bhagat:** Significant product sales are also for walls or for roofing?
- Apurva Parekh:** A good mix in some products used for multiple applications, including roof, wall and other things, so there is a nice mix of products. But again, we cannot give you the product application-wise break up.
- Achint Bhagat:** Second question that I had was on working capital. Any scope that you think that the working capital can further shrink from here or we have already hit the bottom in terms of as low as the working capital cycle can get for the company?
- Pradeep Jain:** There are multiple factors at play. We obviously try and target at any point of time a set of initiatives which allows us to keep optimizing our working capital. Having said that, there - are portfolio-led interventions that also keep happening. If you look at it on a consolidated basis, our interventions into the project business, obviously the working capital cycles are much longer than our standalone business. So there are multiple factors that are at play and at times they move in opposite directions.

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- Moderator:** Thank you. The next question is from the line of Avi Mehta of IIFL. Please go ahead.
- Avi Mehta:** Two questions. Nina waterproofing has there been you said if you look at the order book just wanted to understand the order book having a better margin profile? And second is if you could just explain on to give any details on the South Africa acquisitions which you have done?
- Pradeep Jain:** Let me take your first question. On Nina, I would say right now it is pretty much at the existing margin levels. We will be happy to kind of maintain those margin levels as long as we can grow the business for Nina. The second question was on the South Africa - are you referring to Kenya?
- Avi Mehta:** The one that you did in June, July.
- Pradeep Jain:** Avi, I do want to clarify this - whilst that comes across as an acquisition, the way you should interpret it is that we are beginning to explore manufacturing interests in Kenya through a tolling arrangement and that is more the set up of the local entity through which we will do the business. It is not per se an operating business acquisition. It was a local entity that had been setup with a very, very small share capital and we have just bought out the share capital.
- Avi Mehta:** 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 Rahul Maheshwari of IDBI Mutual Funds. Please go ahead.
- Rahul Maheshwari:** Good afternoon Sir. I have two questions. First on the last quarter you had told that in adhesive and sealants, the growth was much on the premiumisation side. How in the current quarter the premiumisation has taken place and second thing in last quarter you had told that you had acquired the company in Sri Lanka just like the Fevicol, so what is the performance of the company during the quarter?
- Pradeep Jain:** Rahul, your first question which is the premiumisation, again as Apurva mentioned, we do not share that level of granularity, but premiumisation as a stated intervention will continue

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to drive value growth ahead of volume growth, so therefore that is something which we are happy with and that agenda is progressing well. That is all that I can say at this point of time and that is kind of demonstrated by the various interventions we have seen in our product portfolio through Fevicol Marine, Fevicol HI-PER, Fevicol Probond etc.

Rahul Maheshwari:

Similar premiumisation has taken place in industrial products also?

Apurva Parekh:

No. In industrial products, as I said earlier, we have been changing our portfolio towards more specialty, more value-added products. Going away from the commodity type of products, so that is not known as premiumisation, but it is more moving towards specialty products.

Rahul Maheshwari:

On second Sri Lanka company acquisition?

Pradeep Jain:

We had acquired the Sri Lanka business in Q3 of last year, so it is still in the state of being completely operationalized but it is steady state. We are doing reasonably well. No major comments to offer on that front.

Rahul Maheshwari:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Sameer Gupta of IIFL. Please go ahead.

Sameer Gupta:

Good evening Sir. Just one question on the competitive intensity in the waterproofing segment specifically, basically our checks have suggested that the new player has starting to gain traction in that particular segments. So are you also feeling that on the ground?

Apurva Parekh:

We see that there has been an increase in competitive activity from a couple of players, so we clearly see that on the ground. We are doing what we need to do to protect and grow our share; however, we believe that in construction chemical category in India is still at a nascent stage. The key challenge is how to expand and growth of consumption. So we believe that the entry of a couple of organized players can help expand and grow the market faster then what it has been growing and if that were to happen we will also significantly benefit from that.

Sameer Gupta:

Thank you Sir. That is very helpful.

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Moderator: Thank you. The next question is from the line of Atul Mehra of Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Good evening and thanks for the opportunity. If you could highlight the common distribution that we would share for adhesives and construction chemicals with the paint outlets, so what could be the broad number in terms of common distribution between our products and paint outlets?

Apurva Parekh: I will not have the exact percentage, but let me give you an idea of how adhesive and sealants are distributed. They have distributed from a large number of outlets including hardware, plywood, general stores, stationary stores, automotive outlets, and industrial outlets. So there are a large number of outlets that sell adhesive products, paints is one of those categories. Some of the largest categories would be hardware, plywood, stationary outlet, and even general stores.

Atul Mehra: Just one question again on a bit around Asian Paints getting serious about this category. So how would you read them as against any of the competition, which so far tried to enter and grow this particular category?

Apurva Parekh: You are talking about adhesive and sealants category right?

Atul Mehra: Adhesive and sealants as well as construction chemicals they want to expand there as well, so how would you read them as competition, because historically as we notes distribution largely which apart from the tremendous branding that Pidilite has done. So given that it seems like they are best players after Pidilite to really challenge this category. So how you at the management level would take them in terms of competition and potential thread in a longer term?

Apurva Parekh: I would not like to make any comment on Asian Paints and what they can or cannot do in this category. However, what I would like to tell you that distribution is only one part of success in any category and brand is also only one part, it takes a large number of various efforts and initiatives to succeed in any category. Also one more very important thing in any category as you would know is being a pioneer. It is being first to the market. There are certain inherent advantages that we have which no competitor can have and that is purely

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because we have been in the market for the longest period of time. We are pioneers. We are a brand, which is used by generation of craftsmen and households. So some of these inherent advantages we have will only remain with us. However, as I said earlier, there have been a large number of competitors, some strong, some weak, some very strong and we consider and take all competitors seriously and we work towards strengthening our capabilities to take on the competitors.

Atul Mehra: That is it from my end. Wish you all the best. Thanks.

Moderator: Thank you. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.

(this document has been edited to improve readability)

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