



“Pidilite Industries 3QFY14 Results Earnings Conference Call”

January 29, 2014



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FINANCE**
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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries 3QFY14 Results Earnings Conference Call, hosted by Ambit Capital Private Limited. 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 this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you Mr. Ranjan!

Rakshit Ranjan: Thank you. Good afternoon everyone. Welcome to the conference call of Pidilite. We have with us the senior management of Pidilite led by Mr. Sandeep Batra – Director Finance. I would like to hand the call over to Mr. Batra first to give an overview of the quarterly performance and then we will open the call for Q&A. Over to you Sir!

Sandeep Batra: Thank you Rakshit and a very warm good afternoon to all the participants on the call. At the outset, I would like to thank you for your continued interest in Pidilite. I will just give you a brief overview of the performance for the quarter and for the nine months of the results which were approved by the board on the meeting yesterday. I will first start with the consolidated performance.

Net sales at Rs10,625 million grew by 14.6% over the same quarter last year. Earnings before interest, depreciation, amortisation and before non-operating income and exceptional items grew by 6.6%; however, due to lower investments and other income, EBIT before exceptional items declined by 3.5%.

We may recall that in the third quarter of last year, we had several conversions of the outstanding FCCB and arising out of these conversions we had credit of write-back done for the interest provision done on these FCCB as well as the exchange losses were reversed, which had been booked in the earlier period. These write-backs and reversals in 3Q last year had aggregated to 106 million. Therefore, if I adjust these reversals from last year’s profit before tax, the figure for last year would be 1,490 million and in comparison the current quarter PBT after adjusting for the exceptional charge on account of VRS is a decline of 8.7%.

If I now quickly look at the standalone performance for the company, net sales at 9,587 million for a growth showed 15.1% over the same period last year. The consumer bazaar segment grew by 15.1% and industrial products led by a strong export performance grew by 17%. Material cost to sales for the quarter is 20 basis points higher than the same quarter last year; however, other expenses during the quarter grew by 25.6% largely due to higher advertising and sales promotion expenses.



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EBITDA before non-operating income and exceptional items is higher by 2.2% over the same period last year; however, other income declined by 57% due to lower treasury income as well as absence of some one-off gains that we had recorded last year in 3Q.

Profit before tax again adjusting for exceptional items and adjusting for the credit last year for interest and exchange gain because of the FCCB conversion was lower by 11%. During the quarter, the company has repaid the outstanding debentures aggregating Rs600 million and with this now there is zero debt on the balance sheet of the company. Further, during the last quarter, the company's subsidiary, Building Envelope Systems Limited became the majority and managing partner in hybrid coatings which is into the manufacture of specialised construction chemicals.

If we look at the nine months consolidated performance, net sales are higher by 16% over the same period last year and EBITDA before non-operating and exceptional items is higher than last year by 19.9%. EBIT because of lower investment income is showing a growth of 12.9% and profit before tax is higher by 14.8%.

A quick look at the segment-wise performance—consumer bazaar segment revenue grew by 15.1%; however, the segment PBIT declined by 1.8% largely because of higher advertising and sales promotion expenditure as well as the one-time exceptional VRS charge. In the case of industrial product segment, revenue grew by 17% led by strong growth in exports; however, segment PBIT for the quarter was lower by 1.2% mainly due to higher input cost.

The performance of the overseas subsidiaries reported a growth of 14.3% in constant currency terms; however, the translation impact in this quarter was adverse and therefore the consolidated numbers show a sales growth of 10.9% for the quarter. All the businesses reported a good topline performance as well as expansion in margins and some of the subsidiary performance of note, I would like to elaborate on—so in North America the sales of the car care chemical business grew by 4% and of the hard material business were the same as 3Q last year.

In both the car care as well as the hard material business, margins have expanded. In the case of car care by 500 basis points and in the case of hard materials by 200 basis points largely because of price increases that have been taken during the year. For the nine-month period, sales of the hard material business grew by 5.5% and that of car care grew by 3% and because of margin improvement, EBITDA for the nine-month period grew by 70.8%.



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The South American business continued its strong performance as reflected in the first two quarters, with a topline growth of 20.5% and material cost as a percentage of sales came down by 400 basis points largely because of pricing action taken in this period and consequently the loss at the EBITDA level came down from 35 million last year to 2.6 million in the current quarter.

Similarly for the nine-month period the topline growth in the South American business was 22.7% and the loss was lower than the nine month last year by 80%. All the other businesses in the Middle East and Africa, sales grew by 22.6% and loss was lower due to tight difficult market conditions in Egypt, which is where the bigger business is housed. The South and South East Asian businesses grew their sales in the quarter by 27.1%; however, sales were affected because of political disturbances in Bangladesh, which resulted in the markets being closed for nearly a month out of the last three months.

For the nine month period, the South and South East Asian businesses grew their topline by 29% and EBITDA was nearly 1.5 times the same period last year. So that is my overview as far as the performance is concerned. I am happy to take questions now.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Mr. Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy:

Thanks for the opportunity. My first question is on the surprise of ad spend on which you have spoken already. Sir I just wanted some more insights, you said bunching of ads have happened, so what drives that is it more innovations or is it more cricket matches or is it some kind of a planning which we internally have? So just wanted in terms of modelling how do we build up for the coming quarters?

Sandeep Batra:

It was not that ad spends were largely led by the new products that we were introducing. I think over the last few quarters we have realised that we need to increase the market spacing spend that we do both in terms of media as well as below-the-line activities and it so happened that in this quarter most of the brands that we had, had to be supported. Again, nothing to do with the underlying economic environment I think the decisions we are taking keeping in mind the salients of these brands and what they required in terms of market inputs. So certainly the ad spends in the quarter is significantly higher than the past few quarter trends as well as the full-year average. So certainly this would not be representative of the advertising and sales promotion expenditure on an annualised basis. Annualised expenditure would be much lower than what has happened in this quarter.



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- Abneesh Roy:** Sir my second question is on the domestic demand side. In 2Q our volume growth was around 15% domestic volume growth. What is the volume growth this quarter because you have said 11%? What was the domestic volume growth? Small town and rural India has been growing much faster but this quarter a lot of consumer companies are saying that rural India definitely is not growing at the earlier rates because of high base or because of may be some impact of the macro, and so in your numbers also is the small town rural India slowing down?
- Sandeep Batra:** Our overall growth for the quarter and volume terms was 11%, which was more aligned with the first half growth rate. If you would recall that in the first quarter our topline grew by 11%, second quarter was around 21%, but for the first half it is more around 15% and 15.5%, which is what the third quarter numbers are and which is what the YTD numbers also around 15.5%, which we believe is more representative of the underlying economic situation. We are however not seen any marked slowdown in the rural component. For us that continues to grow faster than the urban demand and we are not seeing any sharp slowdown like what some other companies may be reporting.
- Abneesh Roy:** Sir one follow-up on this, on urban are you seeing bottoming-out trend signals. I understand currently may not have changed much but any underlying signal which is saying that the urban demand has bottomed out and may be in one or two quarters it might come back in some significant manner?
- Sandeep Batra:** I certainly cannot give any comments on what will happen in the future. The performance in the quarter is as I have explained more in line with, if you look at the average nine-month performance and that is representative of the overall economic environment in which we operate.
- Abneesh Roy:** Sir, my last question is on the international business. US car care there was a decline in 2Q you are seeing 4% growth, which I think is largely price hike, and so how the volumes can get impacted because of this and is that 200bps expansion and 500bps expansion are sustainable? Bangladesh, how you are reading it from medium- to long-term perspective? Will the scene get alright because currently things are quite tough because of the law and order issue but does your optimism on Bangladesh remain from a medium- to long-term perspective?
- Sandeep Batra:** I think the margins that have expanded in the North America business would certainly get sustained. They are not one-time expansions. They are a culmination of actions that we would have taken over the last few quarters. As far as Bangladesh is concerned, I think the disturbance probably was limited to a quarter. The underlying story remains intact and we are quite hopeful that growth in these markets will revive once the political situation becomes stable.



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- Abneesh Roy:** That is all from my side. All the best.
- Moderator:** Thank you. Next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.
- Ruchir Khare:** Good afternoon Sir. Thanks for taking my question. Sir could you throw some more light on the international business like what are all measures we have taken in the past that have led to such a tremendous increase in our performance in this particular quarter and also the quarters in a row?
- Sandeep Batra:** The biggest delta as far as the international subsidiaries are concerned has been South America. If you look at the total turnaround in EBITDA for the nine-month period would be around 15 crores, of which around 10 crores turnaround is in Brazil, which is where as I had mentioned we had taken a lot of on-the-ground steps to improve the performance of the business by strengthening the local capability. I had mentioned that sometime in 2012, we have strengthened the sales and marketing function towards the end of 2012; we appointed a chief executive for our entire Americas business and plus of course with the team in place a lot of actions were identified to improve both the topline as well as the profitability of the business and these results that you see are a culmination of several small steps that we have taken. So I am quite happy that the results are now reflecting the outcome of all the actions that we have taken on the ground.
- Ruchir Khare:** Sir would you like to share the ad spend in this particular quarter and also in the previous quarter like if you could share that?
- Sandeep Batra:** Our annual ad spend is around 4-odd percent and in this quarter was round 6.5% of sales.
- Ruchir Khare:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.
- Sanjay Satpathy:** Thanks a lot for taking my question. Sir can you just give us the segmental numbers for the standalone business in terms of growth?
- Sandeep Batra:** What I mentioned, the consumer bazaar business has grown by 15% and the industrial business has grown by 17% for the quarter.

- Sanjay Satpathy:** That is the revenue terms any indication of volume, because you mentioned volume 11% overall growth?
- Sandeep Batra:** Largely will be consumer bazaar volume growth would have been about 11% and 4% would have been from price and industrial products, lot of the volume growth would have been lower because a lot of the benefit of the weaker rupee would have come as far as growth in exports are concerned.
- Sanjay Satpathy:** The industrial growth is essentially because of weaker rupee benefit?
- Sandeep Batra:** Not essentially but the export growth yes is because of the tailwind because of the weaker rupee.
- Sanjay Satpathy:** Lastly, you were mentioning about this advertisement cost, just to reconfirm it and that this number of 6% will go down to 4% from the March quarter onwards, is my understanding right?
- Sandeep Batra:** I do not think we can predict a number on a quarter-to-quarter basis. I think for a full basis our expenditure is likely to be around the 4% of sales kind of mark. So this quarter we spend more and the full-year average, and so certainly in the coming quarters it will not be at the same level as what was there in the third quarter.
- Sanjay Satpathy:** Thanks a lot sir and all the best.
- Moderator:** Thank you. Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for taking my question. Sir, I just wanted to know which all new products we have launched in this quarter in which division?
- Sandeep Batra:** I do not really remember or have a list of any specific any new products. There would be several product variants, but there is nothing to my mind which would be significantly material as far as the results are concerned.
- Tejas Shah:** Because if I heard correctly a lot of A&P was to support new launches?
- Sandeep Batra:** Let me clarify, it was nothing to do with new product launches. It was largely to support the existing product pipeline.
- Tejas Shah:** Was there any material change in composition of A&P in that spends or it was like as it has been in the past?



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- Sandeep Batra:** No. In this quarter the way our advertising in sales promotion is spent about 50% is in media and 50% is in below the line. Now the below the line would have been remained at the same level. Only the media would have been higher in the third quarter.
- Tejas Shah:** Any price hike we took this quarter?
- Sandeep Batra:** No nothing, nothing of note, I think very material.
- Tejas Shah:** Any material change in VAM prices off late?
- Sandeep Batra:** No they have remained at that \$950,000 kind of level, no change.
- Tejas Shah:** So in rupee terms has it come down sequentially because of correction and all?
- Sandeep Batra:** No it does not come down very significantly. The currency has remained by and large at that.
- Tejas Shah:** Any update on the Elastomer Project?
- Sandeep Batra:** No update. The status quo remains.
- Tejas Shah:** The run rate of capex per quarter is till there 10 crores roughly?
- Sandeep Batra:** In Elastomer, we have not spent any money. We have not been spending any money.
- Tejas Shah:** My sense there was some maintenance capex which goes there?
- Sandeep Batra:** That is nowhere near 10 crores. I think it would be quite insignificant actually.
- Tejas Shah:** Any sustainable revival you are looking at the industrial division?
- Sandeep Batra:** I think the domestic part of the business remains under pressure because domestic demand is not certainly growing at a very rapid pace. I think the improvement in the growth rates has happened because of higher exports and I do not really see any significant change in the local economic environment.
- Tejas Shah:** Thanks a lot and all the very best.
- Moderator:** Thank you. Next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.



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- Nimit Shah:** Good afternoon Sir. Thanks a lot for taking my question. Can I have the absolute number of sales in EBITDA for the subsidiaries?
- Sandeep Batra:** We generally put out an investor communication following the results. So the specific numbers we will put up there otherwise it will take a long time to read out.
- Nimit Shah:** Correct, it is not an issue and Sir I was going through interest expenses despite having a low debt our interest cost for the first nine months is around 17-18 Crores, so any specific reason for that?
- Sandeep Batra:** We have two areas where we pay interest—one is the non-convertible debentures, which is about 60 crores, which we would have paid out. We would have paid interest on that expense and then the other item is that we take as part of our commercial policy deposit from our distributor and those deposits which are security deposits they also earn interest. So that is may be another 30-odd crores of deposits that we would have on which we pay about 7% kind of interest.
- Nimit Shah:** So now from going onwards only 30 crores would be the outstanding amount?
- Sandeep Batra:** These costs that you see these are what we term as finance cost and so there would be some nominal bank charges that will also get added, not just necessarily interest on any debt.
- Nimit Shah:** Sir, the other income also seems to be lower as compared to the last year despite having similar investments and there have not been significant changes in the investment?
- Sandeep Batra:** There has been actually if you see last year till December we had a much higher treasury book. We paid off our FCCBs in December and so till we paid off those amounts would have also earned an interest and then last year actually there was several types of sundry income, which was not necessarily treasury-related. For example, I think last year we had sold off some spare catalyst that we had in our plant that earned us an income of I think 7 or 8 crores. Then we had some one-off gains last year in third quarter, which were about 5 crores. Then in the fourth quarter actually of last year, which is January to March we had prepaid some of the sales tax deferred liability and when we repaid it we got a discount, that discount also came as other income in 4Q of last year. So last year the other income has a lot of these one-off gains.
- Nimit Shah:** Sir any outlook on the cash utilisations for the company because I think the capex would be much lower than what we had done in the past, so any outlook on that front?



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- Sandeep Batra:** I do not think the capex has been lower than in the past.
- Nimit Shah:** I mean international acquisitions and any investment-related international business would be lower?
- Sandeep Batra:** These are not something that you can quite honestly predict. Inorganic opportunities do not come with a lot of advance notice. So we are aware that we have about 300 crores of cash on the balance sheet and we need to find ways of these cash balances earning more than the kind of 8% odd that they earn through debt fund instruments and so board is ceased on that, but beyond that really I cannot share any tangible plans for this cash.
- Nimit Shah:** Any dividend plans to increase that?
- Sandeep Batra:** That is something that I think the board will take a call when it meets in the month of May before that I will not be able to share anything.
- Nimit Shah:** Sir in the consumer bazaar division and that vertical there is an item which is others which shows revenue of I think 24 crores for the first nine months?
- Sandeep Batra:** Yes.
- Nimit Shah:** So what exactly is that?
- Sandeep Batra:** That has two parts there. One is we have a plant in Mahad, which earlier used to manufacture VAM. There we are not manufacturing VAM there, but we are looking at other speciality additives that we can make in that asset. So some work has happened there, and so the product we have been able to develop and place in the market. So the improvement in the sales that you see there is largely because of the new speciality adhesives that we have been able to develop for sales, but those are all I would say not as yet fully commercialised because you know there are some capex investments required in that plant to modify it for these special products, and so in the revenue that you see is because of these new products, new speciality adhesives that we are making.
- Nimit Shah:** Thanks a lot. That is from side.
- Moderator:** Thank you. Mr. Ranjan you may go ahead with your questions Sir.
- Rakshit Ranjan:** Sir I had two questions. The first one is in terms of your consumer bazaar products and so if I am correct in reading this historically the growth rates have been more like 18-22% somewhere in that range on a year-on-year basis. This quarter it has slowed down



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a bit towards 15%. Is that something, which we should not read too much into or there are any products or geographies within which there has been any moderation in growth during the quarter?

Sandeep Batra: I think the overall growth rates across the entire company would have been lower than what the historical performance has been. So therefore this quarter is not to be taken in that sense in isolation because if you see a nine-month growth of consumer bazaar product has been around 15.5% versus 15.1 in the third quarter, and so these are I think reflective of the external environment.

Rakshit Ranjan: The external environment affects pretty much all products or is there any specific...?

Sandeep Batra: It affects all products but more effect is there in what we call the discretionary bazaar segment, the pure consumer segment which is the consumer maintenance products of Feviquick or the art and stationary product is relatively less affected but the discretionary bazaar product, which is the wide adhesive which is Fevicol or some of the construction chemicals those tend to get more impacted in times like this.

Rakshit Ranjan: Second question is on your A&P, advertising and promotions, you mentioned that over the last few quarters, the board has realised that there is a need to support few brands more through A&P than you were already doing and hence you spent a bit more can you just explain with a bit more because some brands were not keeping up to their potential in terms of growing the market with them or is it because competition has come in or is there some other factor behind this decision?

Sandeep Batra: I think the decision is purely linked to the potential that several of our brands have and several of them while there are some which are as I explained discretionary there are several which are pure consumption-led and the role of media in driving demand is fairly well recognised, and so therefore as an organisation what has also happened is that media per se has become very expensive. Media space has become fragmented so you need to spend a little bit more if you wish to reach out to your target audience. So having recognised all that as a company we have decided that may be as a proportion of sales what we spend earlier there is a need to step it up a new notches, nothing really to do with competition or competitive intensity, it is more to help the brand realise the growth that we believe this is possible.

Rakshit Ranjan: So basically historically if you were spending 4% now you probably spending 4.5% or 5% or may be a slightly higher number?



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- Sandeep Batra:** It is not so significantly higher may be we were spending, may be 3-3.5% and will probably take it to 4% and slightly above 4%, and so may be from 3.7-3.8% take it to 4-4.2% kind of a level.
- Rakshit Ranjan:** That is great. Thanks a lot Sir.
- Moderator:** Thank you. Next question is from the line of Avnish Agrawal from Prabhudas Lilladher. Please go ahead.
- Avnish Agrawal:** Sir I have a couple of questions. My first question is regarding capex because if I look at nine-month depreciation. Depreciation has increased from 39 crores in the previous year to 50 crores. So how much capex are we expecting to incur in the current year or is it increase in the depreciation reflective of say aggressive capex plant, which the company has incurred in the past year or so?
- Sandeep Batra:** Depreciation is as you rightly said is a reflection of all that you would have spent in the past and we would have had to build and debottleneck capacity to support the volume growth. Capex has been in line with what I would have mentioned in absolute terms and I think this kind of capex of the nature that we have spent in the last couple of years by and large will be sustained.
- Avnish Agrawal:** Sir what you guiding for the current year and in FY15?
- Sandeep Batra:** As a company we do not really give any guidance, and so if you look at historical capex between 125 and 250 crores that it the kind of level that we believe will be required for the business going forward.
- Avnish Agrawal:** Sir my second question is regarding the working capital intensity because if I look at say in the past nine months or so at the end of the year we were having say mutual fund investments and deposits to the tune of say 360 crores, which has now come up around say 290, 295 Crores, whereas we have generated a cash profit that is your bad debts, depreciation of around 450 crores in the past three quarters, but I am understanding is that there has been a lot more increase in the working capital more so on the receivables and loans and advances, so can you throw some light on that whether we are pushing our products more or lower our credit which we are extending to that rate has been increased significantly?
- Sandeep Batra:** No. I do not think we have done anything out of the ordinary as far as working capital is concerned. Our working capital to sales remains in line with what has been in the last seven to eight quarters' average, give or take a few periods. There is nothing which is



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where working capital has increased because we have given higher credit or whatever, nothing in that sense.

Avnish Agrawal: Sir, as per my calculation and your cash and cash equivalents which we were having in the mutual fund sector that would have been far more?

Sandeep Batra: No, we have been repaying our debt as I mentioned we repaid 60 crores of NCDs in December and so some amount of the cash will go from there plus there are investments in capex, interest tax, dividend, and so all that will take care.

Avnish Agrawal: I will then take it offline.

Moderator: Thank you. Next question is from the line of Mr. Sandeep Kasera from Lucky Investment Managers. Please go ahead.

Sandeep Kasera: Just a follow-up on that question. Can you then clarify what was the net cash around March 31 and what was it as on December?

Sandeep Batra: Net cash as of December 31 this year was 290 crores, investment in mutual fund, last year December was 363 crores. March figure I cannot recall.

Sandeep Kasera: It is lower by around 60 crores? Compared to last year December you said was 360 and this is about 70 crores lower. So does it mean that there has been an increase in working capital because the cash generation in the last 12 months has been significantly higher?

Sandeep Batra: Working capital again March and December is not comparable period.

Sandeep Kasera: December to December, because I think the figure that you right now give is December last year December?

Sandeep Batra: As on December to December we would have paid off about 100 crores of debt. As I said, we have some sale tax liability, which we paid off in the month of March. That was I think about 30 crores, and 60 crores of debentures we paid off that 90. We paid off dividend then we would have done capex. We did an acquisition in the month of August where we brought the adhesive business. So all together the cash book will add up, it is not that in working capital has increased.

Sandeep Kasera: Can you just give at least the capex figure till date? How much we have spent in the current year?



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- Sandeep Batra:** For the year we would have spent about 130 crores.
- Sandeep Kasera:** This excluding the acquisition or including the asset?
- Sandeep Batra:** Including that.
- Sandeep Kasera:** Sir can you give some colour on how has the various segments performed, in the sense as the construction chemical continues to grow much faster than the company average and other two segments can you give some colour on that?
- Sandeep Batra:** I would not be able to share specific numbers. We do not share it on a quarter-to-quarter basis, but directionally as I explained the bigger impact of the slowdown is more in the discretionary product segment where the pure consumer part of our business which are brands like Feviquick and the art and stationary range. They have grown faster.
- Sandeep Kasera:** Thank you so much Sir.
- Moderator:** Thank you. Next question is from the line of Aditi Murkute from IDEN Advisors. Please go ahead.
- Aditi Murkute:** Good afternoon Sir. Thank you for the opportunity. Sir I would like to ask basically in the domestic front, which are the key products which have been shown good sales or the good revenues and rating systems?
- Sandeep Batra:** In the current quarter as I mentioned the consumer product is the brand like Feviquick, M-seal, then the arts and stationary range, the Feviquick range of colour, Fevistick they have all done well.
- Aditi Murkute:** Especially what all the Fabricare product has it done good?
- Sandeep Batra:** It does well.
- Aditi Murkute:** You have recently joined that product, it would not be doing so well, and especially in the south or in the rural area, it would not be going well?
- Sandeep Batra:** I do not know where we got this intention from, but the fabric group for us over the last few years has done extremely well. It sounds like a good acceptance with the consumers, so it continues to gain market acceptance and market position.
- Aditi Murkute:** So currently now what is the market share for Fabric Ranipal right now?



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Sandeep Batra: Ranipal is not a very major part of the product portfolio. It is a very, very small part of our sales.

Aditi Murkute: Thank you Sir.

Moderator: Thank you. Next question is from the line of Pooja Saraf from Microsec Capital Limited. Please go ahead.

Pooja Saraf: Good afternoon Sir. Sir I have this question from the segmental PBIT. I was looking on the segmental PBIT, the losses from the other segments have significantly increased to 371 lakhs from 65 lakhs in the previous quarter. Can you throw some light in this regard?

Sandeep Batra: The reason for the losses, one of course is that the sales have been lower if you see the sales in the prior quarter was about 10 crores and this sale has come down to 7 crores, because of the overhead losses have been higher, because that particular segment largely has the ideal costs of the VAM plant and has reduced by whatever income we are able to get from the speciality adhesives that we make, if the sales in one particular quarter is lower which is what they are in this quarter, so if you compare it to the same period last year the sale was 6 crores and losses were about 2.5 crores by and large in the same range.

Pooja Saraf: Sir one more question. Sir with respect to your industrial product segment can you give a picture of price versus volume-led growth in this segment?

Sandeep Batra: I do not really have the numbers readily available, so I would not be able to share it right now.

Pooja Saraf: Thank you. That is all from my side.

Moderator: Thank you. Next question is from the line of Harsh Mehta from HDFC Securities. Please go ahead.

Harsh Mehta: Thank you for the opportunity Sir. Sir I have just two questions. First on the gross margin front the domestic gross margin this quarter declined by 25bps YOY and this is despite the fact that you had initiated some price hikes in the second quarter, both in construction chemical business as well as in adhesives and sealants, and so if you can explain why the gross margin has declined in this quarter?

Sandeep Batra: Gross margin one reason of course is that the full effect of all the full weakening of the rupee in terms of its impact on import cost, would have played out in the third quarter



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and secondly the mix in this quarter has been relatively adverse in the sense that the share of industrial products has grown as compared to the consumer bazaar segment, so that an industrial product margins are lower, and so blended margins get impacted.

Harsh Mehta: Which indicates that because in the next quarter and fourth quarter the full impact of the price hike will come into the picture, the rupee has stabilised at around 62, 63 level and with industrial segment also now because as you had mentioned in the last call that it is a bit lumpy and export has gained, now it is coming down which would indicate that post this quarter the gross margins would also start picking up or gross margins would show some benefit going ahead?

Sandeep Batra: Yes it will all depend on the mix, so we are not seeing any major concerns as far as gross margin is concerned, depending on which is the mix of product that gets sold, it will decide that blended gross margin.

Harsh Mehta: Sir last question is on the tax rate front. If you can sir give us some guidance about the tax rate for the next two years if possible or FY14-15 if possible?

Sandeep Batra: The current year the tax rate is what will remain in the next year, because there is no structural change as far as we are concerned.

Harsh Mehta: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Rajan Thirumalai from B&K Securities India Private Limited. Please go ahead.

Rajan Thirumalai: Thanks for the opportunity. My question is related to the gross margin front. Even though there has been a decline of 20bps but I am quite surprised looking at the sequential expansion, considering the high volatility of rupee during 2Q, so I just wanted to get a sense that it is purely on the basis of the pricing impact or there is something else to it?

Sandeep Batra: I think it is all pricing. I think raw material cost has largely been stable, and so it is all price as well mix.

Rajan Thirumalai: We do input on 30-35% of the raw materials are imported, that forex should have hit in this particular quarter?

Sandeep Batra: That has all got rolled in and whatever price increases we would have taken in the second quarter those have also got fully reflected in the result, and so part of it would have got impacted and that is why the impact QoQ is not very material.



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- Rajan Thirumalai:** When was the last price hike that we have taken?
- Sandeep Batra:** As I have always maintained it is not on one day that we take price increases, so we do take pricing action as and when a particular product for demand, but bulk of the pricing action would have been in second quarter, not very material in 3Q.
- Rajan Thirumalai:** Lastly could you throw some colour on what is the exchange policy of the company as raw materials are concerned?
- Sandeep Batra:** Our exchange policy is that after we net off, we have a natural hedge because of exports, so adjusting further natural hedge we take full cover of the net dollar exposure.
- Rajan Thirumalai:** On quarterly or is on monthly?
- Sandeep Batra:** On a weekly basis.
- Rajan Thirumalai:** That is all from my side. Thank you.
- Moderator:** Thank you. Next question is from the line of Hardik Shah from Birla Sunlife Insurance, Please go ahead.
- Hardik Shah:** Sir I just have one question. I would like to know if any particular change in product mix you are looking at maybe say focus on any particular segment?
- Sandeep Batra:** There is no specific change in the product mix that we are driving. We know that our consumer bazaar businesses are more profitable than industrial. They have historically grown faster than industrial, which has provided a positive impact of the product mix and that has not happened in this quarter where industrial has grown faster than consumer bazaar, but that is not by design. I think whenever segment is better demand will grow faster.
- Hardik Shah:** So it is like equi-focused?
- Sandeep Batra:** Yes, we want both to do well.
- Hardik Shah:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of P Venkatesh from Optimus Securities. Please go ahead.
- P Venkatesh:** I just wanted a couple of questions. One, I understand PAT has been implemented this year or last year?



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- Sandeep Batra:** In May 2013, in the current financial year.
- P Venkatesh:** Are we seeing any benefits on the working capital front?
- Sandeep Batra:** It is too early to see any benefits at this stage. We certainly hope to get benefit but nothing that we have been able to trace as yet.
- P Venkatesh:** What has been the cost incurred in that front? Has it been charged in the current year?
- Sandeep Batra:** A part of it whatever was capital has been capitalised, so the depreciation on that would get charged in the current year and the remaining expenses which were all implementation support they would have been expensed out.
- P Venkatesh:** Secondly I wanted to understand, I understand from FY14, in FY14 you have an auditor. Any change in accounting policy which we have been conventionally followed any such changes set up happened in the current year?
- Sandeep Batra:** No changes in accounting policy.
- P Venkatesh:** Lastly, I wanted to understand last year we were having this exceptional item in the international subsidiaries, overseas subsidiaries, provision for goodwill impairment in Brazil and the tax liabilities, what is the status on that front, are we having any additional provisions or are they resolved?
- Sandeep Batra:** I do not think there will be any need to further impair our goodwill, given the performance of the Brazilian business there will not be any need to do further impairment of the goodwill.
- P Venkatesh:** From year-to-date any exceptional provisioning been done?
- Sandeep Batra:** Nothing very significant that I can think off now.
- P Venkatesh:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Sandeep Kasera from Lucky Investment Managers. Please go ahead.
- Ashish Kacholia:** Good afternoon Sir, this is Ashish Kacholia here. Sir I just wanted to check in the half yearly balance sheet that you have given there is an entry called other assets which has gone from 25 crores to 146 crores, from March to September, and so I am just trying to

understand what is this other asset, which has gone from March till September it has gone up by some 120-odd crores.

- Sandeep Batra:** I would not remember that right. I cannot recall the September number at this stage.
- Ashish Kacholia:** It is a significant large asset which has been added and we cannot understand what it is surely you will understand where it is in the balance sheet?
- Sandeep Batra:** We will call it right away. So I will maybe get back to you separately outside the call.
- Ashish Kacholia:** All right Sir. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Mr. Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** Good afternoon. Within the consumer bazaar segment would it be possible for you to give slight directional understanding like how do you see the pecking order in terms of growth between adhesive construction or the paint chemical and the hard material?
- Sandeep Batra:** No we do not share this information.
- Nitin Gosar:** Just a pecking order like what is #1, what is #2, #3 on YTD basis right now?
- Sandeep Batra:** I think it will be hard and stationary would have done very well, between adhesives and sealants and construction would have done. I do not have the numbers so I did not want to hazard a guess. Annual basis we declare these numbers.
- Nitin Gosar:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand the conference over back to Mr. Rakshit Ranjan for closing remarks.
- Rakshit Ranjan:** Thank you. On behalf of Ambit Capital, I would like to thank Mr. Batra and the participants on the call. I will hand the call back to Mr. Batra for any closing remarks.
- Sandeep Batra:** Thank you very much for organising the call and thank you to all the participants for their continued interest in Pidilite and have a good day. Thank you.
- Moderator:** Thank you. On behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.