

13<sup>th</sup> August, 2018

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Dalal Street, Fort  
Mumbai - 400 001  
Stock Code – 500331

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

Dear Sir,

**Sub: Transcript of the Earnings Call**  
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We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors on Thursday, 2<sup>nd</sup> August, 2018.

Kindly take the same on your records.

Thanking You,

Yours faithfully,  
**For Pidilite Industries Limited**



**Savithri Parekh**  
Secretary

MA

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“Pidilite Industries Limited  
Q1 FY2019 Results Conference Call”

August 02, 2018

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

**MANAGEMENT: MR. APURVA N. PAREKH - EXECUTIVE  
DIRECTOR - PIDILITE INDUSTRIES LTD.**

**MR. P. GANESH – CHIEF FINANCIAL OFFICER - PIDILITE  
INDUSTRIES LTD.**



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**Moderator:** Good day ladies and gentlemen and welcome to the Q1 FY2019 Earnings Conference Call of Pidilite Industries Limited hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you and over to you Mr. Mehta!

**Avi Mehta:** Thank you Margaret. Hi good evening everyone. On behalf of IIFL I would like to welcome all of you to the 1Q FY2019 Conference Call for Pidilite Industries. From the Company we have with us the key senior management including Mr. Apurva Parekh, Executive Director and Mr. P. Ganesh, CFO. I would now like to handover the call to the management for their comments. Over to you Sir!

**P. Ganesh:** Good evening everyone. I will begin with the summary of the financial performance for the quarter ended June 2018 for the standalone business. On a comparable basis, net sales at Rs.1592 Crores grew by 21.2% over the same quarter last year with an underlying volume and mix growth of 17.9%. This was driven by a 20.2% growth in sales volume and mix of Consumer & Bazaar products and 7.3% growth in sales volume and mix of Industrial Products. EBITDA before non-operating income at Rs.359 Crores grew by 17.3% over the same quarter last year on the back of input-led contraction in gross margin and higher A&SP spends. Profit after tax during the current quarter at Rs.267 Crores grew by 23% over the same quarter last year.

Now I will move to a summary of the consolidated business for the quarter ended June 2018. Net sales at Rs.1,818 Crores grew by 23%, adjusting for GST impact over the same quarter last year. This excludes the sales of Cyclo division of Pidilite USA, which was sold in June 2017. EBITDA before non-operating income stood at Rs.384 Crores for the quarter and grew by 19.6% over the same quarter last year. Profit after tax during the current quarter at Rs.240 Crores grew by 6.3% over the same quarter last year. The lower rate of growth in consolidated PAT as compared to the growth in EBITDA is mainly on account of elimination of profit on intercompany transfer of certain intangible assets and the effect of tax thereon during the current quarter and the profit on sale of Cyclo business in the first quarter of last financial year.

We have delivered another quarter of strong double digit volume growth. We see gradually improving demand conditions while input cost volatility and currency-led inflation remain areas



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of concern. We remain committed to our strategic agenda of delivering consistent and profitable volume led growth. The floor is now open for questions.

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

**Abneesh Roy:** Sir thanks for the opportunity. On the volume growth, congrats. My first question is on ICA, after three quarters of negative growth rate we are seeing 41% growth rate in this quarter is it because of the sales and marketing efforts or is it because may be the new factory has started could you discuss whether this is sustainable?

**P. Ganesh:** Yes, so couple of points on this front, Abneesh. One is that, the last couple of quarters were also impacted to some extent because of the classification dispute and that is behind us, the supply situation is back to normal and the business is gearing upon that front. So that is one part of it. The second part, which I would also like to highlight is that the woodfinish products are now with ICA Pidilite and that is also contributing to an increased growth rate. If we normalize for that, ICA Pidilite has still grown strongly at 20%.

**Abneesh Roy:** And the margin profile where do you see currently it is around 5% kind of margin, obviously the longer term should be much higher, but when do you see the margin trajectory actually improving towards say the double digit?

**P. Ganesh:** So as we have mentioned previously as well very soon we will have manufacturing, which is starting off and as it develops in terms of scale, it should contribute to an improvement in margins.

**Abneesh Roy:** And when does the factory start any timeline you can give?

**P. Ganesh:** It should actually start in a quarter or so.

**Abneesh Roy:** And you get any tax benefit there?

**P. Ganesh:** No.

**Abneesh Roy:** Sir second question is on the international subsidiaries if I see most of the subsidiaries if you see either EBITDA is down or it is negative except Middle East business and Bamco and on the 125



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Crores sales you are doing just 3 Crores EBTIDA, so any comments, why such a low EBTIDA and what is the game plan here?

**P. Ganesh:** So if you look at the international business, the US business has some impact on account of a drop in the adult coloring space and a couple of geographies like Brazil and Egypt, they have a bit of uncertainty on the macroeconomic front. Beyond that, the other factors, which have impacted is an increase in input cost and a couple of geographies like Bangladesh and Sri Lanka where we are also investing significantly so it is a combination of these factors that have resulted in a lower EBITDA.

**Apurva N. Parekh:** To add to it, if you look at our Bangladesh and Sri Lanka subsidiaries, we have good positions in both the countries, the sales growth is good, quarter-to-quarter margins can get impacted, but we have good business in both the countries. As far as some of the other countries go, there are some challenges but in most of the places we have taken actions like in Brazil and Middle East to cut down the losses and improve the margins, so some of those actions have been working.

**Abneesh Roy:** And Sir last question what is the current VAM prices and on pricing do you intend to take more hikes in the past you have restricted your hikes to one in a year any change there?

**P. Ganesh:** Yes, if you look at VAM prices, the average for us in Q1 was around \$1200, if you were to look at today's spot purchases price, it is closer to \$1325. Yes some amount of price increases have been taken both in Q1 as well as post the end of Q1 and depending on how the raw material position shapes up, going forward in case of increase in VAM, we could see some further increases.

**Abneesh Roy:** And Sir what was the ad spend around 3.5%?

**P. Ganesh:** It was about 4.7%. Ad spends during the quarter have been higher than the annual average.

**Abneesh Roy:** But full year you are still maintaining 3.5 to 4% right?

**P. Ganesh:** Yes, full year it should still be in the 4% or thereabouts range.

**Abneesh Roy:** Thank you.

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



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- Gunjan Prithyani:** I had couple of follow ups on the international business. On Brazil, we have stated our intent to divest at some point is there any progress on that discussion or that plan is completely not been considered at the moment?
- P. Ganesh:** No, our focus in Brazil has been first to minimize our losses, which if you see over last several quarters our losses have been minimized and have come down, so that has been our primary focus, you know Brazilian economy continues to see various ups and downs, which is impacting them so we have said in the past we are open for strategic options, but the current priority is to continue to strengthen the business to eliminate losses and also the local team has taken some good initiatives to introduce some new products and try to find a way to grow even though the economic situation has not been so good.
- Gunjan Prithyani:** But are we at all engaging or trying out to figure out a way to either withdraw from that market or divest that investment?
- Apurva Parekh:** No currently we continue to operate, but if any strategic option were to arise we will carefully take a look at it, but you know local economic situation there is a bit difficult so if any opportunity or any strategic options were to come up we will certainly take good look at it, but in the meanwhile the effort is to continue to operate it in an efficient manner with minimal losses and some profits.
- Gunjan Prithyani:** And even on the US side this colouring business has been slow for last two quarters if I recollect is there something to really worry about that this business is also going to have issues in future?
- P. Ganesh:** If you look at Sargent Art business we have couple of years of very high growth, in America there was a whole segment, which is adult coloring segment which has seen huge growth, these are some trends, which happen from time to time, so this trend has really picked up in America and this resulted into very significant growth for Sargent Art and the slow growth may be for four to five quarters and not for couple of quarters so there has been slow down mainly because of this where we had seen very sharp increase in sales, which has now come down, but we continue to have some very good customers like Walmart, Amazon, Hobby Lobby and we continue to work with them and we continue to do good business with some of them. So US Sargent Art business is in better situation, but it is not a very large business in terms of the US type of a market, but we still have good product portfolio and we have a good customer base.



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- Gunjan Prithyani:** Moving on the domestic business on the VAM prices now you guys have taken some price increases are those enough to offset the input cost pressure that you have seen or you would look at more price increases going ahead?
- P. Ganesh:** If you look at the Q1 results, there is margin contraction of about 0.9% and as I mentioned we have taken some increases in Q1 we have taken some more increases post the end of Q1 depending on how the raw material prices situation goes forward from here we will take call in terms of pricing.
- Gunjan Prithyani:** What are the kind of price increases you have taken so far in 1Q and I also notice that you mentioned July also some price increases have been taken?
- P. Ganesh:** So the price increases have been in the range of 3% to 5% in the products that we have taken increases.
- Apurva N. Parekh:** The price increases are in different products we have not taken in the same product price increase in both June and July.
- P. Ganesh:** And this is again not the across-the-board increase. These are in specific products, so beyond VAM as well there are other raw materials, which are either solvent based, rubber based, etc., which have also seen price increases so depending on the products where we have seen raw material price increases, we take price escalations.
- Gunjan Prithyani:** This is fourth quarter of double digit volume growth that you guys have reported now would you now call out that there is a decisive recovery in demand outlook now and the industry is growing at this level or is it market share gain because this volume growth if I notice has been for the last four quarters, which is post GST and we did see rates coming off for adhesive, so is it market share gains, is it industry growth being strong if you can just give more colour around the demand outlook please?
- P. Ganesh:** Overall the demand situation definitely is improving, it is a gradual improvement that is being seen. There is volatility around input cost, there is currency led inflation, etc. but, overall, we are seeing a gradual improvement in the demand situation.
- Gunjan Prithyani:** Any market share gains?
- Apurva N. Parekh:** Yes, certainly in some of the products we have definitely gained market share.



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- Gunjan Prithyani:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.
- Chanchal K:** Congrats on good set of numbers. I wanted to understand more on the construction chemical how is the growth been on the construction chemical side and specifically on the application both Nina and Percept has very good set of growth just if you can highlight the growth plan there?
- Apurva N. Parekh:** The construction chemical business has done well. Most of our product segments have done well in Q1 and most regions have also done well. As far as Nina and Percept are concerned, after their acquisition, a lot of initiatives have been taken to improve demand to develop a new customer segment and some of these initiatives are now working. Earlier, they were dependent on a one or two end user segment but we have expanded that base and added more people and those initiatives are resulting in better growth despite the construction market being not so favourable.
- Chanchal K:** If you can just highlight with Nina and Percept how can that be a good driver will you roll it to a residential, now if I am understanding it right this is mostly for industrial and residential building will it roll it to end customer also and can this be a big growth driver going forward?
- Apurva N. Parekh:** As of right now we are not looking at individual small building or a flat or anything like that there is a huge opportunity in commercial complexes, manufacturing plant, office complexes, infrastructure project and large building, so these are the kind of sectors where Nina and Percept are operating, so basically larger project and not an individual small house or flat or anything like that, so we believe there is a big opportunity in that segment and currently we are focused there.
- Chanchal K:** Thanks Sir and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from IIFL. Please go ahead.
- Kunal Shah:** Good evening Sir. Thank you for the opportunity. Sir my first question is regarding the gross margin moderation that we have seen so while you have suggested that VAM prices have been higher and we have taken price increases between the two segments can you give a rough qualitative idea on where the margin pressure is higher, is it on the industrial product side or on the Consumer & Bazaar side and where the price increases have been as well?





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- Apurva N. Parekh:** Pressure is in both, say a product like vinyl acetate monomer is used across our portfolio. Our industrial business uses it as well as our Consumer & Bazaar. If you look at imported raw materials again, both the segments use imported raw material so there has been some impact on both.
- P. Ganesh:** So again we have taken price increases across both the segments.
- Kunal Shah:** My second question was regarding the tax rate, you have said it is because of intercompany transfer or some intangible asset can you give us a bit more details on how the dynamics works exactly?
- P. Ganesh:** Yes, so the IPR asset is pertaining to the wood finish business, which was there in Pidilite and has now moved to ICA Pidilite, our joint venture which specializes in wood finishes. There is an intercompany profit which arises on the transfer of these assets. On consolidation, this profit gets eliminated but in the standalone Pidilite business in which the profit is recorded, the base tax remains in the P&L. That is the reason you are seeing a dip in PAT increase and in the same breadth last year Q1, we had the sale of Cyclo business by Pidilite USA and there was no tax impact on the profit on sale of Cyclo business because of carry forward losses so because of both of these factors, we are seeing a lower growth rate as far as PAT is concerned.
- Apurva N. Parekh:** As Ganesh explained, the inter-company income gets eliminated on consolidation but the tax paid on that income on a standalone basis shows in the consolidated results resulting in higher tax without the recognition of the corresponding income.
- Kunal Shah:** Just a follow-up question what would be your guidance for the tax rate for the full year in FY2019?
- P. Ganesh:** Tax rate as far as FY2019 would not be very different from FY2018. What you are seeing in Q1 is more of a one off impact. So versus FY2018 the tax rate would be marginally higher because one of our plants, which had tax exemption, has now gone out of exemption.
- Kunal Shah:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.



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- Ritesh Shah:** Hi Sir, thanks for the opportunity. My first question is on the market growth rate, if you could provide some color on the market growth rate for our key products?
- P. Ganesh:** So again we have seen good growth across different categories that we operate in so it has been across the board.
- Ritesh Shah:** Sir would it be possible to quantify the market size over here so if I go past the annual report we can see around 17% CAGR growth rate over last 10 years, which is quite encouraging, but if you could provide some numbers over here like what the market size is, is it Rs.10,000 Crores or Rs.13,000 to Rs.15,000 Crores, so that is something on the adhesive side and specifically on the construction chemical side as well what is the market size that we are looking at?
- Apurva N. Parekh:** There is no real accurate data, which would define the market size. As far as waterproofing market goes, again, same thing there is no accurate data available, but in that case the market size is not really relevant, but the market potential is very important. The current penetration level of waterproofing products still continues to be very low in terms of both either people using conventional waterproofing methods or not using waterproofing methods at all and hence the growth potential of waterproofing chemical is substantial. Current market size is not very relevant. If you look at it in industrial products, our market share is lower as there is a greater competitive intensity there.
- Ritesh Shah:** Sir in each of these three, how important is imports as a segment like do we see this as a threat going forward or post GST do you think this number actually got down and it enhances our growth opportunity?
- Apurva N. Parekh:** The market share of imported products is small - is that what you are asking? The market share of imported products is not very substantial at all; however, in all of these products there is a good amount of competitive intensity. There always has been. There are large multinational players, there are national companies, regional companies, so there are various companies operating, but the share of imported products is not substantial.
- Ritesh Shah:** And Sir last question if I may, in adhesives what is a segment, which excites us more, so PVA definitely is something, which is very big for us, but how do we look at radiation curable, the other sub-segments, which are there?
- Apurva N. Parekh:** We find all the segments exciting. We have a very wide range. It starts from school children, to household to all kind of workers to industry and all segments are exciting and each segment is



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unique and we have a good product portfolio, we have strong brand across most of the segments, so I would not like to distinguish between one over the other. We believe there is a good growth potential in most of the adhesive product segment.

- Ritesh Shah:** That helps Sir. I will join back the queue for more questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Thank you for the opportunity sir. Just sorry for dwelling on this question once again, but typically if you look at our basis from here on in terms of both revenue side as well as our EBITDA growth rates and even for that matter the gross margin numbers, we are pretty much getting into a high base zone. First of all, what I just wanted to understand over here is that the gross margin that we have clocked for the quarter, is it that Q1 is usually a weak quarter in terms of gross margins and then it usually picks up?
- P. Ganesh:** No I would not say that the gross margin level quarter-to-quarter there could be significant difference, if there is a difference it is not because of nature of business or seasonality, it is more because of the prevailing raw material prices and what we have done on the selling price increases. Gross margin is not dependent on any kind of seasonality as far as we go.
- Prashant Kutty:** The reason I asked that is because if you look at the base for the next three quarters, we are almost looking at about 53% kind of a gross margin number whereas we clocked about 50.5% for the quarter so just understanding that even after taking some price increases we have not really seen pickup or are we probably expecting this pickup to happen as the quarter goes by is what I was trying to understand?
- Apurva N. Parekh:** Some price increase action as Ganesh covered earlier, we have already taken some actions in the first quarter we took some price action in July, but you must remember that we have been saying for the last few quarters or may be last year, year-and-a-half that our gross margins were at historic level and some correction in gross margin was possible, some of the raw materials like VAM were operating at \$800 level, which was quite low, now that has corrected to \$1200 to \$1300, so some compression on gross margin was likely to happen, but overall our operating margin depends on both combination of the kind of sales growth that we achieve in the gross margin. So going forward the operating margin would depend on what kind of topline growth we deliver while there may be some contraction on gross margin as compared to last year.



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- P. Ganesh:** And another element, which can come into play, is the relative change in mix, so these are the factors, which will impact the gross margin.
- Prashant Kutty:** But just as an extension you spoke about mix as a whole especially post GST and the cut in adhesives, have we seen acceleration in growth rates or let us say our premium segment or probably the value added offerings has seen a demand increase because that is probably what drives our mix element, any such instances over there?
- P. Ganesh:** Again as the tax rate moderates and comes down, you should see a natural uptick as far as the demand situation is concerned, but there are multiple factors like you have a lower base because of GST before that you had demonetisation, etc., so it is difficult to pinpoint how much of the growth is on account of which factor, but directionally if you look at it, with lower tax rates and cheaper products to consumers, demand should go up.
- Prashant Kutty:** But have we seen instances of that at least in the last three, four quarters because we have been seeing double digit volume growth rate?
- P. Ganesh:** Again as I mentioned while that could be an element of that it is difficult to pinpoint.
- Apurva N. Parekh:** And also as I told earlier we believe that we have gained share in some of our product categories.
- Prashant Kutty:** Just one clarification over here, the other expense number for the last two quarters has been reasonably high, is it only because of the ad expense element or any other element?
- Apurva N. Parekh:** Yes, the increase is primarily on account of higher A&SP spend.
- Prashant Kutty:** Thank you very much and all the very best to you.
- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.
- Nimit Shah:** Good evening Sir. I just wanted to know the amount of profit because of this intercompany transfer, which is posted in standalone and not in consolidated?
- P. Ganesh:** Yes, so it is an amount of about Rs.33 Crores.
- Nimit Shah:** So entire difference between the other income on standalone and consolidated is because of that?



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- P. Ganesh:** Yes.
- Nimit Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Agarwal:** Hi Ganesh, few questions from my side. First being that in this Rs.33 Crores of intercompany transfer, how much tax have we paid on this?
- P. Ganesh:** It is 23% tax on that.
- Amnish Agarwal:** Secondly if we look at our standalone numbers, our Consumer & Bazaar growth is 23%, now out of this 23%, can you give some granularity on which segment out of material, adhesives and construction chemical has grown faster where we are witnessing more traction?
- P. Ganesh:** Again the growth has been good across the categories that we operate, while we do not share category specific growth numbers, what I can share with you is that the growth has been good across segments.
- Amnish Agarwal:** My question came because if I look at say some of the other industries, which are actually users of our products, may it be plywood or laminate or some of these ceramic tile companies, etc., the growth rates have been very muted even some of the largest players have reported say very low single digit or even decline in sales so that is the context in which I am looking at?
- P. Ganesh:** I am not familiar with the growth figures you are referring, but I can say that in most of our bigger product categories we have seen good growth rate in the first quarter.
- Amnish Agarwal:** Sir you have also indicated that there has been some price section so can you give us some idea that what could be the quantum of prices on your average portfolio?
- P. Ganesh:** Sorry can you repeat the question?
- Amnish Agarwal:** Sir you have taken some price increases in say last quarter, so in this quarter can you quantify the change in our average portfolio?



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- P. Ganesh:** Again it is difficult to put an average because we are talking about multiple categories, multiple products, but what I can share is that we have taken price increases we have been largely in the range of 3% to 5% and it is not a price increase, which is taken at a point in time, so depending on how the raw material prices move as well, you would have price increases for another set of products at different points in time.
- Amnesh Agarwal:** Sir finally just one question, if I look at Pidilite over the years, sustainable EBITDA margin guidance used to be something like 18%-19%, which a few quarters back was updated to 20%-21% and then to 22% to 23%, so given the fact that now your input costs are firm and last two years margins were 24-25%, what sort of medium term margin guidance or range should we be looking at?
- P. Ganesh:** Again as we have mentioned, we expect to operate in a band of EBITDA margin so where you could look at 21-22% at the lower end and we have gone to 25-26% at the higher end. We would expect to operate within this band.
- Amnesh Agarwal:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.
- Chanchal K:** On the volume growth in the last four quarters, you have seen strong volume growth and this is also at the time where you were expanding the distribution reach so if you can quantify how much percentage of the volume growth has come from distribution reach and how much from the general increase in demand and the second question is on the industrial side, the margin comes with a gap because it is difficult to take a price increase am I reading it right?
- P. Ganesh:** See it is difficult to quantify that because when your sales go up in a town, it is difficult to exactly quantify how much is because of the increase in demand and how much is because of addition of new outlet, one of the reason for that is also very strong indirect distribution in India, so it is not very easy to quantify that, but one thing I can say that our smaller population centers are growing at faster rate than the bigger population centers.
- Chanchal K:** How is the mix in smaller population, is the mix better normally?
- P. Ganesh:** Mix in terms of product mix?



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- Chanchal K:** Yes.
- P. Ganesh:** Product mix is similar.
- Chanchal K:** The smaller towns you were expanding, has that extension been done or you think there is more scope to do it?
- Apurva N. Parekh :** If you know in India, almost 75% of population stays in villages, which are typically 5,000 population and less, so that is real hinterland and smaller population centers so that is obviously significant potential to expand distribution over the years. A very, very large population of India stays in small population center. All of that is not unserved today and lot of that gets served through indirect distribution, but to answer your question, yes there is good potential to keep on expanding distribution. Even within bigger cities there is a lot of expansion happening in terms of periphery or new areas, there is always good potential to expand distribution in a country like India.
- Chanchal K:** On the margin part?
- Apurva N. Parekh:** As far as IP business is concerned, yes your understanding is right that these are also negotiated prices because we are dealing with B2B customers so yes these are negotiated prices and then therefore in a sense when raw material price has increased, the pass on is not something which is immediate.
- Chanchal K:** Lastly on the ad spend, last two quarter ad spends have been high. Assume that the margin cushion is not there in the next two - three quarters, how is the decision taken, how does the math work?
- P. Ganesh:** In a sense the A&SP spend is not something we would look at as a lever towards maintaining margins so as far as EBITDA margins go, that would be more of a combination of things like sales mix, the pricing, cost optimization initiatives, etc., there are multiple levers through which you can actually optimize the margin and clearly A&SP is something we would not look at as a primary driver for managing margins.
- Chanchal K:** Thanks. Wish you all the best.
- Moderator:** Thank you. The next question from the line of Amit Purohit from CGS-CIMB. Please go ahead.



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- Amit Purohit:** Thank you for the opportunity and congratulations Sir. Just on the margin side again and on the price hike that we have taken, so is the price hike that you indicated is also on the industrial side or are we referring to only consumer segment?
- P. Ganesh:** It is across both segments.
- Amit Purohit:** In the consumer segment, the performance has been decent and the drag is largely due to the industrial business, is that the right assessment on a standalone business?
- P. Ganesh:** Yes the growth rates have been higher for the quarter as far as the Consumer & Bazaar business is concerned as compared to the industrial product business, so can you repeat what is your question on that?
- Amit Purohit:** I am just saying that the EBITDA growth also for the Consumer & Bazaar segment is close to about 31% versus an industrial business EBIT growth of about 3% on the segmental performance, and clearly the margin concern is more on the industrial side whereas Consumer & Bazaar, which grew at 20% is still at EBIT level growing at 31%, so from that context I am just trying to understand.
- P. Ganesh:** Again if you look at the margin profile, the Consumer & Bazaar business margin profile is definitely higher than the industrial product in terms of the margins you make.
- Apurva N. Parekh:** Higher growth rate has helped that business deliver better profit growth as well.
- Amit Purohit:** So operating leverage also plays out?
- Apurva N. Parekh:** Yes, you are right.
- Amit Purohit:** Rather than the gross margin percent?
- Apurva N. Parekh:** Gross margins are impacted in both, but higher sales growth in Consumer & Bazaar has helped achieve better operating leverage.
- Amit Purohit:** That is helpful Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL Capital. Please go ahead.





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- Avi Mehta:** Sir just a clarification on the margin front, now as it was rightly pointed out that contraction in the margin that we see in the industrial segment has been much higher versus what we have seen in the Consumer & Bazaar segment on a Y-o-Y basis, is that a difference largely because of the operating leverage would that be a fair thing?
- Apurva N. Parekh:** No that is not the only thing, also in industrial business that you may be aware that our industrial business is made up of lot of different businesses like organic pigment, industrial adhesive, industrial raisins, each one of them has very different margin profile, there is also a product mix, which also has an impact on margin so as far as industrial product business goes, I would not look at very closely the quarter-to-quarter number for both sales growth and margin growth for that business. We have to look at a little longer time horizon because several other factors can impact gross margin and sales growth.
- Avi Mehta:** No Sir you are right, but the reason why I was looking at that is because if I recollect in 1Q FY2018 also, we had a very big impact because of the mix. The segment had grown faster if I recollect and hence I was just trying to connect that even this year. Is that what is the reason or is there something else as well?
- Apurva N. Parekh:** No, multiple reasons this year, there is a higher material cost as well as the mix.
- Avi Mehta:** The second thing sir, while you have indicated the range, which you have maintained to around 21% to 26%, given the price increases and given where the demand environment is, what could be the risk that you see, it looks like you are more in the higher end of the range. Would my understanding be incorrect because you are already clocking at this juncture almost 100 bps higher so even you are almost at 21% - 22% right now itself and have taken price increases beyond and the mix was poorer so is it that we should expect things to be in the higher end of the range?
- Apurva N. Parekh:** I think when Ganesh was saying a range like that, he is saying it over a long period of time means over the years, which we operate as a company in that kind of a band it is not on quarter-to-quarter or this quarter to next quarter, one of the key reasons which will impact the margin is also the kind of sales growth that we achieve, so what I am trying to say is Q-o-Q look at the EBTIDA margin and trying to project the next quarter is something, which cannot be done. The range that we are saying is that we would like to operate in 21%-22% kind of a range, but actually it has been fluctuating from around 18-19% two years ago to about 25-26% in some quarters as well. So ideally what we are comfortable with is about 21-22% kind of EBTIDA margin, but it can go up and you know if it can go up in some quarter, it may go up as well.



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- P. Ganesh:** And also the input cost is also dynamic phenomenon so if you go back and look at Q3, the VAM prices for us were about \$975 right now as far as Q1 is concerned we are looking at \$1,200. If you look at today spot price it is about \$1,325, it could go up or it could moderate and correct, so it is also a variable, which is not a predictable one.
- Apurva N. Parekh:** So I think just to give you an idea, our endeavour is to achieve consistent double digit volume growth while operating in a reasonable gross margin and EBITDA margin kind of a band and for us both of those bands are very healthy, you know while they can go up or down from quarter-to-quarter for last many years, both our gross margin and EBITDA margin have been in a healthy range, but they could go up and go down because of various factors like raw material cost, dollar exchange rate, etc. but our endeavour is to achieve consistent double digit kind of growth approaching towards 14-15% is the endeavour and if you see in the first quarter or for last few quarters, we are now sort of inching towards achieving consistent double digit volume growth. So that is the key objective we are not overly worried about gross margin and EBITDA margin as long as it operates within a healthy range.
- Avi Mehta:** Fair enough. Sir the second was on something that I have always been asking, would you like to call out the recovery now or would you still say that you were cautious because of last few quarters?
- P. Ganesh:** See as you know us for many years, we do not like to call out recovery or not call out recovery because it is always very difficult to predict, but what you can see is from our numbers and if the trend appears to be favorable, there appears to be gradual improvement in demand, but we do not like to necessarily call out anything, but the figures are showing a gradual improvement in demand in a more consistent growth rate.
- Avi Mehta:** Second was on the category, just a clarification if you could help (a) clarify which categories have seen market share gain and (b) if you could share more on the handicraft adhesives segment, has that seen a recovery from the earlier quarters that was kind of being a drive on our growth rates?
- Apurva N. Parekh:** Overall we have seen growth in segments like adhesives and sealants. As it was expected that after GST implementation, you know companies who are non-compliant or companies who are not paying their taxes will find it more difficult to do business and some of that benefit will move to organized player so some of our segments we have seen that, one is because of GST as well as some of the initiatives we have taken to improve our share in some of the categories where we took several actions to do so. So I would say in some of the product categories within adhesive



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and sealants, we have seen market share improvement. Water proofing chemical I could not talk about market share because the main objective is about expanding the market and achieving a higher growth. As far as handicraft adhesive goes, it is a smaller part of turnover; however, within that segment, while our sale and volumes have stabilized, but that segment has seen a significant trend change, this handicraft adhesive market, the type of beads people use and the kind of fabric design, which is being done recently is a lot different than what was done two to three years ago. So as far as competitive pressure in that categories, we have been able to overcome. There is a significant trend change, which has happened, which has impacted the market, but the overall contribution of this category is not that high.

**P. Ganesh:** And the other parts of the space whether it is in the form of stationery, etc., they continue to do well.

**Avi Mehta:** That is all from my side. Thank you very much.

**Moderator:** The next question from the line of Prachi Kodikal from Bay Capital. Please go ahead.

**Nikunj Doshi:** Hi this is Nikunj Doshi here from Bay Capital. I just wanted to know after implementation of GST, have we seen any rationalization of warehousing cost and logistic cost or any benefit that you see coming in?

**Apurva N. Parekh:** We have worked on a new network design and certainly there is benefit where you know very optimal depots in certain states have shut down so that impact has started flowing in, but in terms of significant reduction in freight costs, we have not seen because there has been a contrary increase in the freight cost because of the increase in oil prices, but we have shut down some of our smaller depots in smaller states where depots are no longer required.

**Nikunj Doshi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Banerjee from UBS. Please go ahead.

**Abhishek Banerjee:** Hi Sir, could you just give us an update on some of the new product portfolio?

**Apurva N. Parekh:** We have several new products, which have been launched for the last couple of years some of them which we have shared earlier there are products like Fevicol Heatx, Fevicol Marine or a recent launch, which we have launched during IPL product called Fevicol Ezeespray, which is a aerosol based adhesive doing fairly well. Even in paint chemicals we are doing some trial



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launches of couple of products, which are giving us encouraging results, but in our larger categories, all the launches that we have had over last few years be it Heatx, be it Hi-Per or Ezeespray are doing fairly well.

**Abhishek Banerjee:** Sir just to quantify could you tell us what percentage of your revenues are they making up say the new launches in the last two years?

**P. Ganesh:** We would not like to quantify that. We would not like to give out because that is sale of individual brands so we would prefer not to do that.

**Abhishek Banerjee:** Thanks.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Avi Mehta for closing comments.

**Avi Mehta:** Thank you everyone for taking time for this call. I would now like to handover to management for their closing comments.

**P. Ganesh:** Thanks everyone for coming on the call. Thank you.

**Moderator:** Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.