"Pidilite Industries"

May 23, 2011

MODERATORS: MR. SANTANU CHAKRABARTI
MR. SANDEEP BATRA

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY'11 results conference call of Pidilite industries hosted by IIFL Capital limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Santanu Chakraborti from IIFL Capital. Thank you and over to you Sir.

Santanu Chakraborti: It is our pleasure to have with us today Mr. Sandeep Batra, Director Finance Pidilite Industries to talk on the results of the latest quarter and the full financial year. Without much further ado, let me hand over the floor to Mr. Batra. Mr. Batra if you could please.

Sandeep Batra: Let me start with brief commentary on the performance for the quarter and for the year, after which happy to take any questions. On a consolidated basis, net sales for Pidilite Industries and its subsidiaries grew by 22.8% to touch Rs. 6280 million. Earnings before interest and tax and before foreign exchange differences and exceptional items during the quarter at Rs. 661 million was higher by 23.8% over the same period last year. Profit before tax and pre-exceptional items grew by 32.8% to touch 622 million.

On a standalone basis for Pidilite Industries net sales grew by 24% over the same quarter last year to reach 5547 million. Earnings before interest, taxes, and before foreign exchange differences and exceptional items grew by 21.9% to 734 million. The EBIT margin before foreign exchange difference and exceptional items was lower by 20 basis points over the same period last year largely because of increase in material cost and a planned higher advertisement spend. Raw material cost as a percentage of sales have increased by 215 basis points over the same period last year owing to higher input cost, which have been partly offset by price increases taken during this period.

Other operating expenses increased by 23% mainly in manufacturing, freight, and advertisement expenses. Manufacturing and freight cost increases were driven by higher volume and increase in rates of fuel-related expenses. Advertisement expenditure was stepped up in accordance with our plan to coincide with major sporting events and activities, which was staged in the country in that period. Because of the rate of exchange between the INR and the US Dollar, this quarter there was a gain of 14 million versus an exchange loss of 1 million in the same period last year. Interest cost has come down consequent to the repurchase of non-convertible debentures earlier in the year. Profit before tax and before exceptional items was 700 million, a growth of 29.1% over the same period last year; however, during the quarter exceptional provision of Rs. 250 million was made towards the diminution in value of Pidilite investment in its subsidiary, Pidilite Middle East Limited. Pidilite Middle East has investments in the equity capital of Jupiter Chemicals, which is the operating subsidiary in Dubai, and as I would have updated earlier this unit has been making losses over the last few years owing to the difficult economic condition in that region and given that a fair substantial amount of the investment by PMEL in Jupiter has been impacted by continuing loses, PMEL impaired its investment in Jupiter in this period and consequently the company also reviewed the carrying value of its investment in PMEL and as a matter of prudence has made a provision of Rs. 250 million towards the diminution in such value.

That has resulted in the profit after tax at 292 million compared to 550 million last year. A quick look at the performance for the year, consolidated net sales grew by 20.5%, and earnings before interest and taxes and pre-foreign exchange difference and exceptional items grew by 23.9%. The tax rate for the company has increased in the year as three of its units in Himachal Pradesh have completed their first five-year tax holiday period. As a result of which the tax rate has increased from somewhere around 12% last year to 21% this year, thereby the growth in profit after tax has been slower than the growth in profit before tax and profit after tax has grown only by 14%. Standalone performance for the year topline grew by 21.8% and EBIT grew by 22.7%, material cost to sales as a percentage was higher by 145 basis points, and this increase has been more pronounced in the second half of the year.

Profit before tax and before exceptional items grew by 28.5% for the year, and profit after tax and after exceptional items was 3039 million compared to 2891 million last year. The board has recommended a dividend of Rs. 1.75 per equity share as compared to dividend of 1.50 per share declared last year. You may recall that last year dividend included a golden jubilee dividend of 50 paise per share, so effectively on a normal basis from 1 rupee dividend, this year the dividend is 1.75 per share. A quick look at how the individual segments have performed in the quarter and for the year, consumer and bazaar segments reported strong growth of 27.1% in the quarter, which takes the growth for the year to 22.3%, and growth was driven by the main segments of the adhesives, sealants, and construction chemicals. Profit before tax and interest grew by 26.7% in the quarter and the PBIT margin in the quarter was similar to that of the same period last year, though for the year margin was 50 basis points lower. In the case of industrial product, the topline grew by 24.4%, largely led by a strong growth in exports of pigment, which grew by 80% in the quarter ended March 2011. However, here the input cost increases have impacted margin, whereby the PBIT has grown only by 10.3% in the quarter resulting in a margin compression of about 220 basis points, wherein the PBIT to sales has dropped to 17.3% versus 19.5% in the same period last year.

A quick look at the performance of our overseas subsidiaries, the nominal growth during the quarter is 13.2%; however, adjusting for currency translation impact, the growth in constant currency terms was 6%. North American businesses reported a topline growth of 11% in the quarter and 13% for the year. Together with actions taken to increases prices and console cost, the EBITDA for the year has more than doubled, reporting a growth of 109%; however, the business in South America performed below expectation with constant currency sales growth of 7% for the quarter and 11% for the year. The lower growth was due to competitive pressure and supply constraints in select products category. This together with higher material cost and freight cost has also impacted margin, and the EBITDA in the South American business was only 33 million for the year as compared to 79 million last year.

The businesses in Middle East and Africa were impacted by local economic situations and by political uncertainty in the area. In the quarter, sales declined by 12% and losses have also increased in these operations. Our businesses in South and Southeast Asia continue to build on a strong foundation and for the year EBITDA increased by 50% in these businesses. However, on a totality basis for our overseas subsidiaries, the EBITDA for the year pre-exceptional items was only 40 million compared to 92 million last year. Work on the synthetic elastomer project is continuing on track with civil work in full swing at the site, and long-lead-time items having been ordered.

We are planning for completion of this project by the end of this fiscal year and after which work on stabilizing commercial production will commence so initially there will be trial runs that will undergo and thereafter the commercial production will commence. That is all I have from my side on explaining the Q4 results and happy to take questions now.

Moderator: Thank you very much. The first question is from Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the consumers and bazaar segment in Q4, our sales have really jumped up to 27% growth, whole year number 22%. I wanted to understand how much was this due to advertising led because we did increased advertising in the World Cup and how much is the sustainable growth rate for FY'12 and FY'13 in consumer bazaar.

Sandeep Batra: It is very difficult to give a split how much of the topline growth has been led by advertisement spend. If we knew then we would be able to very accurately spend money on advertisement. But if you see our Q3 and Q4 growth for consumer and bazaar, they have all been in the same range, 26.5% in Q3 and then 27% in Q4. Some of it is certainly a price increase effect. We have been taking price increases, so I reckon volume growth will be in the low 20s with the balance being made up through price increases. Again, as a company policy, we do not give any guidance for the future numbers, but in terms of a sign of the times to come, certainly the way the interest rates have been increasing, there could be some impact of that on overall GDP growth for the country and in line with that impact we would see some impact on our topline as well.

Abneesh Roy: Sir industrial is 24% growth but margins have been down by 220 BPS, I wanted to understand when we would catch up on the margin cycle. Will it always be some kind of gap because competitive intensity is there and may be raw material is pretty volatile?

Sandeep Batra: Industrial businesses suddenly will have longer lag that the consumers businesses in passing on cost increases, but over a period certainly we will look to get back to our base level of margins even in the industrial products, but what is happening in the current scenario is that first of all given the steep level of input cost increases it is not possible to pass that cost increase in one shot in industrial product. It has to be a slightly more calibrated price increase and unfortunately even before you take one price increase, costs have again inched up, in a scenario, where input cost is continuously increasing. There will be lag, as we will be always playing catch up in terms of margin.

Abneesh Roy: Sir Crude has corrected from a peak level by 13%. I understand that your price increase would not have been enough for peak level raw material prices. Do you think that if crude comes up further, margins would start expanding from here?

Sandeep Batra: We are yet to see any benefit of this crude correction in our input cost, but certainly over a period of time that benefit of the correction will flow through in our input cost as well and the moment the increases in the input cost get arrested and we see some moderation there. Definitely it will have a positive impact on margins.

Abneesh Roy: Sir, on the 25 Crores you have done the provisioning, what will be the strategy in Middle East, Egypt and Dubai, are you going to completely scale that down and wait for stronger signals from the ground, any kind of such a cut happening in South America also, because there also profits have come down significantly, any turnaround happening there, if you could give some clarity on these two geographies?

Sandeep Batra: In all these three markets, Dubai, Egypt, and Brazil, performance has definitely been below expectations, so as a first cut what we have done is whatever is the cost that could be eliminated they have been addressed, but that is not enough. In Egypt, definitely we see the disruption that happened as more short term. Structurally for the market in Egypt we do not see major concerns, but definitely in terms of using Egypt for exports into select countries in Africa there could be some short-term disturbances there, as some of the countries like Libya, Tunisia, etc., are themselves going through political upheaval but definitely we see the Egypt business getting back to a much stronger footing. The situation in Dubai is slightly more different and you know we do not see any immediate result to very high profits, so our first priority there is to ensure that the business stops making losses and for that whatever action needs to be taken is being taken and should reflect in the results in this year, but quite honestly all options are something that are open to us for dealing with a market like Dubai. As regards the Brazil operations, again in our assessment it is a short-term blitz that has happened and we are doing all that it takes to improve the competitiveness of the business so be it in terms of investing in some hardware, which will help to reduce cost of manufacture or increased capacity there to take care of growth, all those actions are underway. So Brazil is not really a structural issue there in terms of any larger macroeconomics situation, it is more an internal capability issue for us, which we are addressing.

Abneesh Roy: Sir, coming back to Dubai and Egypt, what will be our market share, the largest product out there in Dubai and Egypt to get some sense where we are in the market place. Is it very difficult in Dubai compared to the Egypt on a relative position?

Sandeep Batra: Let me explain the Dubai business to give some more clarity. We have a manufacturing facility for construction chemicals in Dubai. We also export adhesives, Fevicol as well as some other products in the sealant category from India to Dubai. In Dubai, our adhesive businesses, which we are exporting out of India, have done well. It is in several parts of UAE the most well known adhesive brand there. The pace of growth had slowed down, but it is still doing reasonably well. The problem is in the construction chemicals part of the business in Dubai for which we have a manufacturing facility so we would have a very very small market position in that market for consumption chemicals, which is the one, which is making losses.

Abneesh Roy: So it is largely market related.

Sandeep Batra: Yes it is market related there.

Moderator: Thank you. The next question is from Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Thanks for my question. I just had a question on your competitive scenario domestically taking into account that we do enjoy a brand image, so going forward in the current year taking into account that raw material prices and all have increased. So do you see any shift taking place to other unorganized place?

Sandeep Batra: I do not really see any shift, yes of course the smaller organized players decide to use this cost inflation as a tool not to increase prices, so in which case they will be compromising on their profitability. If they choose to do that, that is their business call and I cannot really comment on that, but structurally we do not see any change in the competitive landscapes.

Kunal Bhatia: So currently what would be our market share in the larger segments?

Sandeep Batra: The market shares would vary segment to segment, but if you were to look at a segment like premium bind (ph) glue which is Fevicol, certainly we are market leaders and our share would be somewhere around 70%.

Kunal Bhatia: How about your key raw material, how you are seeing the prices there and what is your take going forward?

Sandeep Batra: If you were to look at product like VAM, the cost of that has increased by nearly 40% over the last five months. So, we are definitely seeing a lot of hardening there in the input cost. Whatever self-help measures we can do to offset this cost, the remaining amount will get passed on by the way of price increases and that process is currently on.

Moderator: Thank you. The next question is from Siddharth Rajpurohit from SIHL. Please go ahead.

Siddharth Rajpurohit: Sir, what percentage of your raw material will be group derivative?

Sandeep Batra: It is a very difficult question to answer. I can answer this question a bit indirectly. If you look at VAM, which is about 17% to 18% of the input cost that is largely an oil derivative. All our packaging items would be in one way linked to movement in crude. Lot of the other monomer that we use would also be linked to crude. So fair amount of raw materials will be linked to crude. It is difficult to give you a percentage.

Siddharth Rajpurohit: Okay and apart from that what will be your other major raw materials?

Sandeep Batra: Well there is nothing which is major, but if you look at a category of items, packaging materials would be fairly major components.

Siddharth Rajpurohit: To source you raw materials, do you have long-term contracts?

Sandeep Batra: I do not what you to define it as long term, but for most of the imported items there would be quarterly price contract we would have. Beyond the quarter it is all open.

Siddharth Rajpurohit: Sir coming on the elastomer front, generally what time does it take for stabilization?

Sandeep Batra: Will it depends**,** it is a chemical plant you know, we are expecting a chemical completion to be over sometime towards the end of this fiscal after which the commissioning will start, it is a technological challenge and nobody has made Elastomer in India earlier, so it will take time, it is very difficult to give you numbers like that and now our chemical plant whatever time it takes are you know for commissioning and stabilizing all these process parameters, we expect this to be in the same range.

Siddharth Rajpurohit: Is it an export-oriented unit?

Sandeep Batra: That is correct.

Siddharth Rajpurohit: Sir, can you give some guidance on what can be the revenue contribution from the part?

Sandeep Batra: We do give any guidance on numbers, but this is a 20,000 tonnes per annum plant and at full capacity to go back current, the current price of the product is somewhere around $5 to 5.5 of kilogram, you know you can do the multiplication, it will give you a top line number.

Siddharth Rajpurohit: Sir are you planning to introduce any good brands in the market?

Sandeep Batra: No real brand, but we are a very niche product company, so there would be on a continuous basis product being evaluated for such niche application, but none which would probably be something that we will spend a lot of money advertising behind.

Siddharth Rajpurohit: What will be your total CapEx for FY'12 and FY'13?

Sandeep Batra: We do not disclose forward looking numbers like that, but historically our CapEx has been between, say around 100 odd Crores every year.

Siddharth Rajpurohit: So what is the balance CapEx remaining for your Elastomer project, total is 200 Crores CapEx is required for it?

Sandeep Batra: Balance about between 200-250 Crores of CapEx.

Siddharth Rajpurohit: 50 Crores is your working capital CapEx.

Sandeep Batra: For all our projects, we will need about 200-225 Crores of CapEx.

Siddharth Rajpurohit: Around 200 Crores CapEx will be remaining on that plant?

Sandeep Batra: Yes we have spent about 310 Crores, so we may spend between 200 and another 225 Crores on the CapEx.

Moderator: The next question is from Ranjeet Tirumalla from B&K Securities. Please go ahead.

Ranjeet Tirumalla: I just wanted to know whether it would be possible for you to provide the split between the consumer bazaar FY'11 as a year between adhesive, construction, and art materials.

Sandeep Batra: That data will be available in the annual report, which will be speculated towards the early part of July, so I would suggest that we wait till that time to get that data.

Ranjeet Tirumalla: Okay sir, the other would be like the industrial projects have seen good growth what is the main reason for that?

Sandeep Batra: One main reason of course is significant growth in exports, our exports of the industrial products in the last quarter would have grown by 57% and this is similar to the full year growth story for export, so that is one major driver and growth in India also in select industrial segments have been good.

Ranjeet Tirumalla: The thing is that you have been able to maintain your gross margin at 47%, so what is the strategy like we are taking the pricing action preemptive or it is like?

Sandeep Batra: No we do not have a preemptive pricing approach, but what we would do is wait for clarity on the input cost trend, and if you see that input cost starts continuing to increase, then we would take pricing action, so there would be some lag between cost and price increases.

Ranjeet Tirumalla: In the fourth quarter, what are the price increases you have taken?

Sandeep Batra: It would vary from category to category not very significant in the fourth quarter overall at a company level, most of the price increases are planned for this quarter it will be in May, June.

Moderator: Thank you**,** the next question is from Ramnath V from Birla Sun Life Insurance. Please go ahead.

Ramnath V: This is on the dividend pay out ratio, if you look at as yourself mentioned that the dividend has now gone up to 1.75 and if we excludes the last year thing, so is this because is there a change in the dividend pay out ratio internally that you will be targeting going ahead or is it more of enough thing that you are saying.

Sandeep Batra: No, there is no change in the dividend pay out ratio, see if you look at the total pay out last year was around 30%, also if you add back the exceptional item to the profit after tax, the ratio is similar to what it has been over the last four years, so it is not significant shift in the pay out ratio.

Ramnath V: Do you see a sense that because going ahead if you look at some of the plans that you have laid out and stuff like that incrementally the CapEx requirement for you would be lower and the debt also has come off, so is there a possibility that some of this ratio could actually improve going forward?

Sandeep Batra: No I do not look at it like that, if you look at the immediate next two years, we have major capital expenditure on the Elastomer projects, secondly to support the kind of growth that the ongoing businesses have been experiencing, there will be CapEx requirement which will happen, so that CapEx will be as I indicated last year our CapEx, other than the polychloroprene project was about 80-90 Crores so that CapEx can increase as volumes increase and then December, 2012 we also have a due date for the redemption of these foreign currency convertible bond, if those bonds were to get redeemed then there also cash will be required for it, so we do not see any major change in the pay out ratio.

Ramnath V: One more question is on the VAM plant. How much of the backward integration is helping you in terms of managing because how much of the total VAM consumption internally produced?

Sandeep Batra: Currently for the last two years we have not been running our VAM plant, because it has proved to be more economical to import it than to run it, so we have opted to actually import our entire requirement of VAM. That plant has not been running.

Ramnath V: Sir what is the reason for that in terms of not being able to actually use the internal facility when it is available?

Sandeep Batra: As I said it is not cost economical to make it internally.

Ramnath V: Sir on the working capital cycle, this year I have not been able to check it, but till last year it had come down to 38 days from 76-80 days that used to be earlier, you see that stabilizing at that range in terms of 40 days kind of a thing?

Sandeep Batra: Our working capital is slightly higher than 40 days which is more towards the 50 day-mark and it has remained at that level for all of the last year, specifically in March our working capital has actually gone up, because as an organization our first quarter is always our strongest quarter if you look at the historical thing, so for that we had to build up inventory in March to support expected sales for April, May, June, so March end our investments in inventory have significantly increased as compared to last year.

Moderator: Thank you. The next question is from Kaustabh Kakati from PUG Securities. Please go ahead.

Kaustabh Kakati: Sir, my first question is related to you're A&P expenses. How much would that have been as a percentage of sales for this quarter?

Sandeep Batra: This quarter it would have been closer to about 6% of sales.

Kaustabh Kakati: My other question is on your debt, now we have seen a lot of retirement of debt, I think about 90 odd Crores of your NCDs were retired, right.

Sandeep Batra: That is correct.

Kaustabh Kakati: So you would have about 60 odd Crores remaining. Now you would need about 200 Crores of CapEx going forward and you have also reduced your debt, where is that funding going to come from?

Sandeep Batra: Funding will come from internal accruals and should it fall inadequate then we will have to look at borrowings.

Kaustabh Kakati: Okay, so there is a possibility of increased borrowing again?

Sandeep Batra: Yeah if need be definitely.

Kaustabh Kakati: All right sir and one basic question on the macro level that I had was you have about 70-75% of market share in the adhesives market and that market is more or less a mature market and that business contributes a largest chunk of your revenues, we know for sure that your construction chemicals is growing at good clip, but is there any worries that there might be some sort of stagnation in the main core business?

Sandeep Batra: There is no worry. Our country has a GDP growth of 8-9%, individual segments will not have a worry, the phase of growth in that category will not be like construction chemicals, but definitely it will have a growth rate.

Kaustabh Kakati: So you would still expect a 10-12% growth in that particular market?

Sandeep Batra: There can be growth in that category.

Moderator: Thank you. The next question is from Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: The synthetic elastomer project from whatever I heard from you, will be costing something like 500-525 Crores, so what is the kind of pay back period you are expecting for this project?

Sandeep Batra: It will be between four and five years from the date of completion of the project.

Kaushik Poddar: And you will be selling these materials in India itself or this is exported?

Sandeep Batra: Largely it will be exported.

Kaushik Poddar: What is the synthetic elastomer used for? What are the end uses?

Sandeep Batra: It has a variety of applications, it is used to make components which go in the automotive industry, it is used to make surgical gloves, it is used to make conveyor belting systems, it is used to make adhesives, which are required for the footwear industry, very wide range of applications.

Kaushik Poddar: Okay, but net-net you are saying the cash pay back will be between four and five years. Another thing, your automobile chemicals and art materials, they have not been growing as much. Any initiative on this front?

Sandeep Batra: It is actually arts materials and stationery materials that is the segment and automotive material is a small component of that. It has been growing between 12 and 15%, so we are looking at what all can be done to revive growth and there are several actions under way it will take a long time to know with new management.

Moderator: Thank you. The next question is from Amnish Agarwal from Motilal Oswal Securities Ltd. Please go ahead.

Amnish Agarwal: Congrats Sir on a good set of numbers. The first thing is you indicated that VAM prices are 40% YOY for the past five months, so how much of price increase we have already taken, secondly what is the expected trend in your view in terms of say your behavior in the VAM prices and thirdly is there a possibility of any sharp fluctuations in margins at the gross level in the coming quarters?

Sandeep Batra: Yeah as far as VAM prices, they have increased by about 40% compared to the December level, but we hope that this is probably the peak of the cycle and they will thereafter correct, because these are unprecedented highs as far as cost is concerned, so whatever is our assessment of a sustainable VAM price, we would have factored it in to our cost and accordingly taken pricing action, pricing action would vary, the impact of the pricing action would vary depending on the timing of that action some which have been taken in March-April will have an impact for the full quarter and some which have been taken or which are being taken towards the latter half of the quarter will not fully reflect in the April-May-June results. The overall price increases that we would have taken would be about 4 or 5% on an aggregate company wide basis. In terms of what impact will happen in this quarter, very difficult to give a number, if you go by H3 (ph) our price increases have lagged cost increases, but specifically what would be the impact in this quarter, it is a bit difficult to give you the number.

Amnish Agarwal: Actually, I was not looking for any numbers, but I was looking more from the qualitative aspect that can this fluctuation resulting from volatile movements and when I am looking at volatility it is more like there are 3 or 4% or to put it rather other way is there a considerable lag in taking the price increase or is it not very significant?

Sandeep Batra: No our lag has always been between one quarter or at worse two quarters, nothing more than that.

Amnish Agarwal: Okay and Sir my second question, which is slightly a macro question you also indicated about the raising interest rate, because the way they are raising there is likely to be some impact on the construction activities, some impact on the automobile segment also and these are some of the segments to which we have surprised already and you indicated in the elastomer project also we will be supplying partly to the automobile sector, so first of all in the domestic market in view of the emerging economic situation, what sort of impact do you see on the overall volume growth particularly in adhesives, sealants and construction chemical market to which you are supplying and secondly in automobiles where do you see the demand for our synthetic elastomers particularly looking at the state of the global automotive industry?

Sandeep Batra: Let me take your second question first. The elastomer project is largely an export oriented industry, so the automobile industry which it will cater to are and the larger amount of the demand is in US and Europe, so there is a fair amount of demand in those markets and those economies are only improving even though the rate of growth may not be anywhere near what we have in India but markets are doing well and quite honestly our capacity is only about 7% of the overall demand, so there is enough market available for us to go for, even if the economic situation in the world is, the outlook is not very good even then you have a large amount of the demand, which we could access and secondly as regards to India story it is very difficult to give a sectoral number, but if GDP growth in India slows down from 9 to 8% there could be some impact of that slowdown in our volume growth, very difficult to give any specific numbers to that, however, our exposure to the automotive sector in India is not very significant. We are minor; we do not have a major exposure to the auto sector in India. It is largely around the adhesives for repair, construction, or for woodworking and similar applications.

Amnish Agarwal: Sir to put in a slightly different perspective, are we already witnessing some sort of an impact on demand or till now there is no impact, say till end of May, because we are already say one-and-a-half months in to the next year.

Sandeep Batra: I will not say, it is very difficult to figure out trends by looking at only one, one-and-a-half month’s data, but at the moment we are not seeing any alarming signs as yet.

Moderator: Thank you. The next question is from Harish Zaveri from Deutsche Bank. Please go ahead.

Harish Zaveri: Sandeep just a maintenance question on the FCCBs pending to be redeemed by December, what would that amount be?

Sandeep Batra: It is $37.2 million worth of FCCB, due for redemption or conversion in December 2012. Conversion can happen at anytime at the request of the bondholder.

Moderator: Thank you. The next question is from Prashant Poddar from Invesco; please go ahead.

Prashant Poddar: I understand that a lot of questions have been asked around the pricing and the cost, but if I look at the gross margins of the company, they have actually improved sequentially and even on a year-on-year basis the margins are quite steady despite the cost having gone up so much and as I understand there have not been too many pricing increases, so how has this come about, could you throw some light on that first?

Sandeep Batra: We have taken price increases and over last year, we would have taken on a company weighted average basis, which adds up to about 5% or so, so about 4-5% of price increases are already reflected in the result, which have helped to maintain the margins at the levels of the previous year.

Prashant Poddar: I mean 5% price increases do not look sufficient, in the current kind of high raw material environment, given that the cost of raw material is 50% of sales of selling prices, so if the cost have gone up by in excess of 25-30%, I do not know what has been the year-on-year increase on a weighted average basis?

Sandeep Batra: No the year on year increases have not been as significant as that and mind you the 5% of price increase that I told you is the impact reflected in the last year's result, price increases have been taken at varying points of time and that is not all the price increases that have been taken. There are more price increases that have been implemented in the current quarter, so some have already been taken in April, some have been taken in May, some will get announced in June, so it is a continuous process.

Prashant Poddar: I understand, and there are price points, at which you take it, you cannot take it with every 5% increase you take. I understand that what I mean to ask is what should be the broad range of gross margin that we should understand given the economy does not going to a serious problem.

Sandeep Batra: As a company, we would like to maintain our margins, but then that maintenance of margins cannot be something that can happen on a quarter-to-quarter basis. If you look at a longer-term perspective, we would look to maintain our margins, if you look at quarter to quarter there could be impact given the fact that there is a lag between cost and price increase.

Prashant Poddar: Okay, and my second question is related to other expenses, so, what is the kind of net employee addition that we are looking at FY'12 in terms of percentage?

Sandeep Batra: In terms of absolute additions to head count we are not anticipating or planning for a very large addition. We had undertaken two years back an exercise to strengthen the capability in the organization by inducting a lot of people at senior levels, had exercises by and large over and because of that exercise our manpower costs to sales had gone up. So, we see that trend going down as the overall company's growth in volume terms remains strong and in terms of specific additions, nothing very material to talk about.

Prashant Poddar: Do you think the wage inflation for FY'12 could be lower than FY'11?

Sandeep Batra: No we have not seen that, we are seeing wage inflation this year to be higher than last year. I have not seen it to be lower.

Prashant Poddar: Okay. The third question is on advertising and promotion expenses. Would you like to maintain the percentage of ad and promotion expense or would you like to bring that down as volumes scale up?

Sandeep Batra: As a company, we do not really spend a very large amount on advertising. Our overall spend is between most probably around under 4% as a percentage of sales. So, we look to maintain that. What would be more important is to look at the efficiency of the spend rather than reducing the spend.

Moderator: Thank you. The next question is from Gautam Chhaochharia from UBS. Please go ahead.

Gautam Chhaochharia: Good numbers, just a couple of questions. Basically, this is for VAM Plant as well as international operations. Right now, you are still making loses of international operations in FY'11. The VAM Plant you are not running, so obviously you are making some losses because of that, because of depreciation, etc. So, for these two parameters how do you look at the outlook for FY'12?

Sandeep Batra: See VAM Plants we are looking at other products. The reason why we have maintained the operations in that plant is because we are looking to use the hardware to make some other products, but still that other products initiative, we keep some amount of predictability and some amount of certainty, we are not going to talk about it. The total ideal cost that we have in our operation is around 12 or 13 Crores in a year, something that we believe is worth keeping if we see some good business coming out of the alternatives that we are developing, but it cannot be certainly an open ended initiative. So, a point will come that we will have to take a call on whether we continue to incur that 12 Crores a year loss on standing charges. So, we are currently not really in a position to share any further information. As far as international is concerned, our US business has done very well last year. The one, which obviously underperformed, was the Brazilian operations and it is the single largest business that we have. We are looking at whatever actions need to be taken at the subsidiary as well as support from India to get that business back to the kind of performance level that may risk. At the same time, actions to stop the losses, say in operations like Egypt and Dubai are something which are underway, cannot really share much more at this stage, but certainly we are ceased of the fact that these performances are impacting overall company's performance and we are taking requisite steps to address that.

Gautam Chhaochharia: Do we see some results in this year?

Sandeep Batra: Definitely we should see some changes in this year.

Gautam Chhaochharia: One last thing, when you provided that 25 Crores for impairment of subsidiary evaluation in standalone numbers, how was that being accounted in you consolidate numbers?

Sandeep Batra: It has no impact on the consolidated numbers.

Gautam Chhaochharia: But you said now that the second level subsidiary there have been some impairments?

Sandeep Batra: See the way it would happen is, because of the continuing losses, the losses are getting consolidated, because of the losses, the investment by holding company has got impaired. So, it will get reversed on consolidation, so no impact right?

Moderator Thank you. The next question is from Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Congratulations on the good set of numbers. Sandeep, I just wanted to know if you could share, what would be our current procurement prices for VAM?

Sandeep Batra: This is not something, which I can share. But it will be definitely lower than market. So, I cannot really comment on how much lower than market. But definitely we being a large buyer do enjoy some pricing difference, but beyond that I really cannot share.

Tejas Shah: Would it be safe to assume that crude oil prices movement from here on would be reflected in VAM prices or is it overhang of supply demand scenario also on that?

Sandeep Batra: The crude oil factor does have a part to play and you cannot really correlate VAM movement to crude or to ethylene, which is the key raw material for VAM. It has its own demand supply characteristics. For example, if a large plant in some part of the world has manufacturing constraints, you will see speculative appraising creeping in and cost going up.

Tejas Shah: So, what could you attribute this last 40% hike in five months? Is it more of demand supply scenario, which are more structural or crude oil prices?

Sandeep Batra: There is no long-term demand supply scenario. There could be some amount of impact because of, one of plants, which are facing some kind of lower output or some destruction, but it could be because of cost. Oil has increased significantly; we did not see it in the pricing of VAM, so really there is a delayed catch up of that happening.

Tejas Shah: So you are not seeing any structural change over there in terms of demand supply?

Sandeep Batra: No.

Tejas Shah: One last question. I believe the elastomer project not if completely, in a slightly different distribution in business standards that you will require to set up because you will be addressing different set of clients globally and your plant would start as you have added by FY'12 end or FY'13 initial first quarter. So are heavy set of support infra for that in the sense, marketing team and any fillers on that side will take a call once plant get started?

Sandeep Batra: We will not take a call when the plant gets started. It is an industrial product, so its distribution is not like your conventional line and it is largely going to be sold outside India, which will all be through distributors. So, we are aware of the distribution channels required for this product. We know what it takes to sell it and which are the key geographies for this product, but we have not yet appointed any distributors for this in the key geographies, if that is the question that you were asking me? That is something that we will do in this current year.

Tejas Shah: Sir, I just want to understand, how this industry elastomer is structured in a way, is it segmented or is it there are few suppliers who are like very big and will be priced (ph)?

Sandeep Batra: There are a very few suppliers. There are only four companies, other than us, which make this elastomer. Few other companies like DuPont, who makes it. You have a company in Europe called Lanxess, which makes it. You have a couple of companies in Japan, who have access to technology for making it. That is about it.

Tejas Shah: So in this case Sandeep, if I understand correctly, we will be targeting, our capacity would be able to support 7% of markets. So in this case, we will be more of a price taker than a price maker?

Sandeep Batra: Not really. I mean yes, pricing power is limited in such a category that is for sure. So our approach is that we could be having cost advantages in this product, which would you know then enable us to be comfortably placed as far as pricing challenge is concerned.

Tejas Shah: That cost advantage would emanate from what fact?

Sandeep Batra: They emanate from location, the fact that your plant is in Dahej in an SEZ, well positioned. It would emanate from the fact that during course of trying to absorb the technology, we have identified few cost saving avenues.

Tejas Shah: So, there are ways that our final pricing would be enough attractive for the buyers to buy our products.

Sandeep Batra: Definitely we will do whatever it takes to make that business successful.

Moderator: Thank you. The next question is from Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar: Sandeep, you have mentioned that in this year tax rate in standalone level went up, as three factories moved out of the first five-year period, is there any other factory that is moving out in FY'12 or FY'13?

Sandeep Batra: Yes there are. We have three other factories in Himachal who will then complete their five-year tax holiday this year, next year, and year thereafter. So, there will be one unit each year, which is completing its tax holiday period, and so there will be an upward movement of the tax rate every year.

Amar Kalkundrikar: Will it be possible for you to share some indication on what kind of, couple of percentage points?

Sandeep Batra: Here it will be about 3% to 4% points increase this year.

Amar Kalkundrikar: Okay, for FY'12?

Sandeep Batra: Because one of our larger unit is completing its five year tax holiday period.

Amar Kalkundrikar: Okay, and FY'13 will also be higher than FY'12?

Sandeep Batra: It will be higher, but not as this rate of increase because the biggest remaining unit out of three is completing in this year.

Amar Kalkundrikar: On advertisement and sales promotion lot of questions have been asked. I just wanted to ask can you share the absolute values spent in Q4 of this year and last year?

Sandeep Batra: Both the year, it was about 6% odd of the sales of that quarter. I do not remember the number, but it was all upwards 30 odd Crores. Definitely, I think it was about 30 to 35 Crores this year and let us see, last year would have been 20% lower than this.

Amar Kalkundrikar: One question, little confusion, on the website of the company there is a presentation which has a slide called PCR update which I presume is for elastomer project, it has a line called additional CapEx of 140 Crores whereas we were discussing around 200 Crores, am I missing something here, some other CapEx, which is not mentioned in this?

Sandeep Batra: I think what would have happened after that is that we would have reviewed our total CapEx requirement taking into account what other facilities you would like to build there, so 200 to 225 Crores number is the more accurate assessment.

Amar Kalkundrikar: It is a current number.

Sandeep Batra: That would probably be an older presentation.

Moderator: Thank you. The next question is from Yomika Aggarwal from Royal Bank of Scotland. Please go ahead.

Yomika Aggarwal: I just want to ask you from a more long-term perspective where do you see the next surge of growth for the company coming from? Like you see is it from inorganic expansion or from your existing products?

Sandeep Batra: Inorganic expansion, one cannot comment on. If and when it happens it will add to the company's financial, but from the organic businesses, I see growth coming from all our categories and pattern of growth will remain similar to what it has been over the last couple of years, which is why construction chemicals leads growth pack and then you have the consumer products like Feviquick, m-Seal at the next level of growth followed by adhesive and sealant, and growth in industrial products will be led by not only the Indian economic situation, but also by the economies around (inaudible) 1.04.00 those will be largely the growth drivers for the company.

Yomika Aggarwal: Sir, one more thing if broadly you could tell us how do you see the VAM prices increasing the coming year, like percentage wise, for the next two to three years?

Sandeep Batra: I really have no idea of how VAM prices will behave. It is all a function of how oil prices will behave, so we do not stimulate input cost increases for the future, we take it as it comes, and then decide what is the way to counter it. So, we do not really make any projections on how VAM will look like or VAM prices will look like couple of years from now. Sorry, I cannot answer that question.

Moderator: Thank you. The next question is from Shirish Pradeshi from Anand Rathi. Please go ahead.

Shirish Pradeshi: Very good, just one question, enough we have spoken of VAM, I just wanted to know our health to understand what was our original assumption at what price we were thinking of introducing VAM plant and what is the assumption now?

Sandeep Batra: VAM plant was built in the 80s. I do not have a number on you know what price would have been the assumption at that time. All I can say is that at every quarter we would do an evaluation of, whether it is cheaper to make VAM in-house or to import it, so every quarter will revisit the decision, and in all these quarters it has proved to be economical to import it rather than make it in house.

Shirish Pradeshi: Basically, I just wanted to understand, you mentioned that 510 Crores, this is what for the completion of the project?

Sandeep Batra: That is for the Synthetic Elastomer project.

Shirish Pradeshi: Correct, but assuming that if it is operational, what kind of working capital investment we would require or it includes that?

Sandeep Batra: No, this is only fixed capital, this does not include working capital, but given the fact that it will be largely export out of India and the kind of raw materials that we need, they are all to be bought on advanced payment, so it will have working capital requirements definitely. We have not really made an accurate assumption of that working capital number.

Shirish Pradeshi: This is the last question, what is the current international price for VAM?

Sandeep Batra: Are you asking for VAM or for Synthetic Elastomer?

Shirish Pradeshi: Sorry, Synthetic Elastomer.

Sandeep Batra: Synthetic Elastomer currently is about $5.50 a kg of that order.

Shirish Pradeshi: In that assumption, what kind of export we have factored in if the plant has to be viable?

Sandeep Batra: Largely export, the demand is not from India, so about 75% of the output is to be exported.

Moderator: Thank you. We have a followup question from Prashant Poddar from Invesco. Please go ahead.

Prashant Poddar: Just wanted you said that in considering the current economic environment, there is a possibility that we see some demand being a soft next year from the growth levels as we are seeing now, are you already seeing that or is that assessment of the current situation?

Sandeep Batra: No, we are not seeing that at the moment. We are not seeing any visible signs of slowdown in consumer demand.

Prashant Poddar: This includes the construction chemicals segment; so just a followup on this, construction chemical is used in which kind of industries?

Sandeep Batra: We use in construction of buildings of road, major infrastructure projects, but a large amount of our business is towards the retail side, which is on the repair and restoration part of the business, not so much in first time construction, so at first time construction sales would be may be about 25% of overall construction chemicals, three quarters are on repair and restoration business.

Prashant Poddar: Is it fair to say that monsoons are more important for you than the infrastructure of industrial cycle?

Sandeep Batra: During monsoon, construction activity does come to end; it is only post monsoon that people realize that their houses have got water seepage, leakage problems, so that would be the implication of monsoon.

Prashant Poddar: My question was more coming from the fact that if monsoons are good, would you see better demand, in the sense that, because of better spending power of your consumers?

Sandeep Batra: No monsoon does not really have an impact on the urban side of the economy directly, it has indirect implications, so nothing specifically, monsoon impact as I mentioned would be largely because of, whatever, water leakage or seepage get discovered post monsoon. That drives some amount of growth.

Prashant Poddar: Last question again, as you mentioned that as a company you would like to maintain your gross margins in normal circumstances, would that mean that your EBITDA margin should keep on improving with the increasing operating leverage?

Sandeep Batra: Yes, logically it should, but the question then is that what do you take as the base year for the EBITDA margins.

Prashant Poddar: On an going basis, if things remain all right, obviously the raw material inflation is much higher in the current environment, but if it is a nominal kind of increase in raw material cost and therefore you keep on taking price increases and maintain your gross margins, would you believe that the EBITDA margin should keep on improving or there is a cap on that?

Sandeep Batra: No, there is no cap on that; I mean conceptually the EBITDA margin should reflect the operating leverage.

Moderator: Thank you. The next question is from E. Venkatesh from Corporate Database. Please go ahead.

E. Venkatesh: I just wanted to understand what would be the amount capitalized for the Synthetic Elastomer till date?

Sandeep Batra: Currently, nothing has been capitalized in that sense, it is all capital work in progress, we spent about 310 Crores so far.

E. Venkatesh: 310 Crores is spent till date?

Sandeep Batra: Yes.

E. Venkatesh: Okay and secondly I just wanted to know, if I am taking a look at your results, which have been published under the segmentals for consolidated FY'10 that has been some reworking, which has been done, any specific reasons for that?

Sandeep Batra: For FY'10?

E. Venkatesh: Yes, for FY'10 consumer bazaar products have been shown as 486 Crores, which till December 2010 results used to be around 260 Crores.

Sandeep Batra: Which line are you referring to?

E. Venkatesh: I am seeing seen the capital employed line.

Sandeep Batra: Capital employed line, yes tell me.

E. Venkatesh: For consolidated, we are showing for FY10 as 486 Crores, which used to be earlier as probably say 260 Crores, I just wanted to figure out?

Sandeep Batra: I am not able to understand your question.

E. Venkatesh: The results which were published earlier mentions a figure of 260 Crores for March 2010?

Sandeep Batra: Now, it is 307 Crores.

E. Venkatesh: Not for the quarter, for the full year?

Sandeep Batra: Figure will be the same, for quarter or full year.

E. Venkatesh: It is different for consolidated.

Sandeep Batra: Consolidated you are saying? Now we are saying 486 Crores and last year was?

E. Venkatesh: You had shown as 260 Crores.

Sandeep Batra: 260 Crores? I need to check, I do not know.

E. Venkatesh: There is some error on that.

Sandeep Batra: I need to check that, I do not think last year we would have, but anyway I will need to check that, I do not have the answer right now.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Santanu Chakrabarti for closing comments.

Santanu Chakrabarti: Thanks to all participants and especially to Sandeep for such an interactive and fruitful discussion. With that I would like to close the call and thank you everyone for attending.

Sandeep Batra: Thank you very much.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference call. Thank you for joining us.