



June 4, 2018

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Sub: Transcript of the Earnings Call


We enclose herewith, a transcript of the Earnings Conference Call held with Analysts/Investors on Friday, 25th May, 2018.

Kindly take the same on your records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited


Savithri Parekh
Secretary

Encl: As above

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**“Pidilite Industries Limited
Q4 FY 2018 Earnings Conference Call”**

May 25, 2018

**ANALYST: MR. ANAND SHAH – RESEARCH ANALYST - AXIS
CAPITAL**

**MANAGEMENT: MR. APURVA PAREKH – EXECUTIVE DIRECTOR –
PIDILITE INDUSTRIES
MR. P. GANESH – CHIEF FINANCIAL OFFICER -
PIDILITE INDUSTRIES**



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q4 FY2018 earnings conference call hosted by Axis 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Anand Shah from Axis Capital Limited. Thank you and over to you!

Anand Shah: Hi, Good afternoon, everyone. And on behalf of Axis Capital, I welcome you all to the Pidilite Industries Q4 FY2018 Earnings Conference Call.

We have with us the senior management of the company, represented by Mr. Apurva Parekh, Executive Director; and Mr. P. Ganesh, the CFO.

I would like to now hand over the call to the team for opening remarks. Thanks, and over to you.

P. Ganesh: Good evening, everybody. I will begin with a summary of the financial performance for the quarter ended March 2018 for the stand-alone business.

On a comparable basis, net sales at Rs.1261 Crores grew by 14.5% over the same quarter last year, with underlying volume and mix growth of 13.3%. This was driven by a 13.4% growth in sales volume and mix of Consumer & Bazaar products and 13.9% growth in sales volumes and mix of Industrial Products. EBITDA before non-operating income at Rs.255 Crores declined by 0.3% over the same quarter last year, given the input cost-led contraction in gross margins by about 1% and A&SP cost increases.

Profit after tax during the current quarter is at Rs.238 Crores, an increase of 235% over the same quarter last year. Current tax for the fourth quarter of FY2018 includes an amount of Rs.46 Crores, being excess income tax provision of earlier years now written back.



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For the year ended March 2018, on a stand-alone basis, comparable net sales at Rs.5281 Crores grew by 12%. EBITDA before nonoperating income grew by 5.3%. Profit after tax increased by 23.4% over the previous financial year.

Now I will move to a summary of the consolidated business for the quarter ended March 2018. On a comparable basis, net sales at Rs.1473 Crores grew by 19.8% over the same quarter last year. This excludes the sale of the Cyclo division of Pidilite USA, which was sold in June 2017.

EBITDA before non-operating income stood at Rs.274 Crores for the quarter and grew by 5.1% over the same quarter last year. Profit after tax during the current quarter is at Rs.248 Crores, an increase of 57.4% over the same quarter last year.

For the year ended March 2018, on a consolidated basis, comparable net sales at Rs.5989 Crores, excluding the sale of Cyclo division, grew by 11.5%. EBITDA before non-operating income grew by 6%. Profit after tax increased by 11.9% over the previous financial year.

During the quarter, Pidilite also completed the acquisition of 70% stake in Cipy Polyurethanes Private Limited. Gradually improving demand conditions led to another quarter of double-digit volume growth. While commodity cost inflation as a result of rising input prices and currency headwinds is a concern, we remain focused on delivering steady volume-driven growth.

We can now open the floor for questions.

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

Abneesh Roy: Thanks. My first question is on Brazil and Egypt. Sir, Brazil, minus 8% sales decline in Q4 and minus 3% full year. So, what is the longer-term game plan? Because I remember, many years this issue has remained. So, do you also plan to



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exit this market at some stage the way you keep rationalizing? And same as the case for Egypt, although that has done reasonably well for the full year.

Apurva Parekh: As far as Brazil goes, I think one thing to note is that from last two or three years or so, we have been able to eliminate the losses at EBITDA level with various initiatives to improve gross margin and concluding expenses. And hence, to that effect, we are really focused on which we have reduced the sale of certain low-margin products, the low-margin product as well as low-margin customers. So, the sale has been impacted due to factors of this nature. We currently, at this time, are focused on ensuring that this business is done on an efficient basis. As far as Egypt goes, Egypt is part of an important focus territory for us, which is Middle East and Africa. Egyptian market has seen a lot of ups and down, including currency-related issues and, hence, it has had an impact on profit. Otherwise, in Egypt, we sell Fevicol and related adhesives. And we believe that, long-term, it is an important market for both Egypt as well as the Northern African countries.

P. Ganesh: And having said that, also to add, even in Egypt, we have been able to cut down the losses, which the company is incurring at this point in time.

Abneesh Roy: Sure. Sir, my second question is on the Indian subsidiaries. I am seeing extremely good performance from Nina and Percept. And quarter 4 Y-o-Y growth is even superior to the full year growth of both businesses. That is not the case for ICA, so if you could take us through all these three subsidiaries why ICA has not done well and why Nina and Percept have accelerated in Q4 versus the full year?

P. Ganesh: Yes. So again, if you look at the waterproofing business and which is where Nina waterproofing and Percept waterproofing businesses play a role, these have seen a good uptick in business. While overall, if you look at the construction sector, while in larger cities, there is still some amount of stress. At a very broad level, there are a lot of construction activity, which is going on in small towns, and rural areas, which are typically the smaller construction as opposed to the large city constructions. So overall situation is improving as far as both of these businesses are concerned. They are definitely seeing a good uptick and a very decent order size book. At the same time, if you look at ICA Pidilite, in the last quarter, we

have shared that towards the end of last quarter, we had a classification issue with the authorities which is something that we have contested. So, there was a spillover effect of that into Q4 as well, and it is this factor that has actually impacted the performance for the quarter. Having said that, supplies, etc., have resumed. So, while the matter in terms of the classification issue is being contested by us, the disruption in business is not there anymore.

Abneesh Roy: Sir, could you clarify on the classification issue? Was it GST related? And why should it impact sales?

P. Ganesh: So again, this was, as I mentioned, the classification issue where the DRI had taken a position that we have not done the right classification. And temporarily, they had actually seized these stocks, which means that for a period of time we were not able to sell. But they have since released that, and the matter will of course now take its logical course in terms of what happens to the classification. Currently, we have moved to the revised classification under protest and recommenced business.

Abneesh Roy: So, are you providing for this any provisioning you are doing?

P. Ganesh: Yes. So, the amount which we have paid under protest, that is fully provided for in the books; and which is why you're seeing that the profits have taken a dip in the quarter.

Abneesh Roy: Right. And Sir, last question, so could you say what could be the revenue potential from the floor sealant and the tile adhesive? I saw the interview today of the MD, so he was talking about these. What can be the long-term potential and what's the current status, floor sealant and tile adhesives?

Apurva Parekh: I think it is floor coating, not the floor sealant. But having said that, I think both the product portfolios have substantial potential. As you know, we would not like to spell out any individual sales target for this product group. But the floor coating market in India is at a nascent stage, and we believe there is very substantial potential and, hence, that was the reason to acquire Cipy business. As the

construction practices in India evolve, the flooring is also likely to evolve and result into substantial business. Similar is the case for tiling adhesive. A lot of tiling in India is still done with cement. While in a lot of countries similar to India as well as in Western countries, there is significant use of tile adhesive. So that is also a market, which is likely to grow at a faster pace. But I would not like to individually spell out any growth numbers for them or any target for them.

Abneesh Roy: But these will be largely unorganized right, currently?

Apurva Parekh: No, it is not unorganized. It is a change in user habits. So, in tile adhesive, as I said, people are using cement; you are moving from cement to tile adhesive. And as far as flooring goes, these are floor coatings, which are epoxy based or polyurethane based, where currently these types of floor coatings are not used. These floor coatings are much superior, which gives much greater durability in industrial facility, healthcare facility, and food industry. So here, again, it is an improvement in the current practices.

Abneesh Roy: Okay Sir, that is all. Thank you.

Moderator: Thank you. We have a next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Hi Sir, congratulations on a good revenue growth performance. Just wanted to understand there is a change in the commentary that I noticed. You have pointed to steady volume-driven growth versus in the third quarter you pointed to profitable growth. I just want to know, am I reading too much into this change? Or does this suggest an increased preference on sales over margins? And is there a minimum margin? Anything on that front would be very helpful if you could share.

P. Ganesh: Yes. So again, as we have seen, clearly, there are headwinds in terms of raw material costs as well as the rupee-dollar exchange rate, which would obviously put some amount of pressure as far as margin goes. Would that result in any price increases we will need to take? Answer is obviously yes. But would we take the full amount of increase or would we take at a lower level and absorb some part of

it, is also something which will come into play. Reason why I am saying is that our focus in most of the spaces we operate in would clearly be in terms of volume growth; and when we say volume growth, it has got to be profitable volume growth. So, it is not a question of going in for volume growth at any cost. We will continue to be focused on profitable volume growth.

Avi Mehta: Okay. So that focus on it is not that it changed. It is just I am reading too much, probably, that is what would be right?

P. Ganesh: And as we have mentioned in the past, we will continue to operate in an EBITDA band and that would be our way forward.

Avi Mehta: Yes, Sir, are we okay to spell that band out? Or no, you would prefer not to give us the band, what exactly would that band be?

P. Ganesh: So again, over the recent quarters, we have operated under significantly higher rate of EBITDA, even going to 25%, 26%. Currently, we have ended with a 24%. We would be comfortable with EBITDA being slightly lower than what we are currently. But obviously, it will have to operate within a band, say, something like a 22% - 25%, or thereabouts.

Avi Mehta: Okay, Sir. Okay, that is the first part. The second part, Sir, is that your comment was about gradually improving the market conditions. Now you have seen three quarters of very healthy volume growth rate. What is it that the concern for us to not call out a demand recovery, because you have actually performed very well for three straight quarters. So why the conservatism, I am just trying to understand. What am I missing?

P. Ganesh: Again, if you look at the current year, Q1 obviously was impacted by GST. Q2 was also partially aided by the fact that Q1 was lower. Q3 had a very good growth, part of it coming from a lower base because we had demonetization in the previous year. And in that sense, one could say this is the first clean quarter this year. But yes, there would have been some amount of demonetization impact in the current quarter as well, but much more of the impact would have been in the

previous quarter. So, what we see is that there is definitely growth momentum. We do see a gradual improvement as far as the demand environment is concerned. But at this point in time, I would say maybe a couple of further quarters is where we will have a clear view to say that, in terms of demand momentum, is it something which has really picked up. But clearly, the indications are positive.

Avi Mehta: Okay, sir. And lastly, if I may, this quarter has seen a very healthy performance in the US subsidiary. Just want to kind of understand, is there something, is there any one-off over there? Or is this the run rate that we can assume? What has kind of happened, if you could throw some light because the subsidiary performance has been very, very good in the fourth quarter?

Apurva Parekh: No, I would not read too much into one quarter for a subsidiary of that size. The business has had a steady improvement in performance. It had headwinds of change in user habit in the adult coloring segment. That is why if you see the full year performance, it is not as good. But otherwise, it is a good, steady business with customers like Wal-Mart, Amazon, Hobby Lobby, etc. But I would not read too much into a growth of one quarter, but otherwise, there, a reasonable, steady business in place.

Avi Mehta: So let me rephrase it. Is it that the adult coloring impact is largely in the base, which is what we saw? That's what the numbers suggest and, hence, this is what so I was just trying to see there, what is the one-off if at all there is?

Apurva Parekh: No, one-off last year, sale could be lower due to various reasons, to some extent. Because I would not say that the growth that we have achieved in this quarter is the normal growth rate. That is not the kind of growth rate that would happen sort of every quarter.

Avi Mehta: Okay, fair enough Sir. I will come back for more questions. Thank you very much.

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: Hi Sir, thanks for taking my question. Just looking at the growth trends, if I look at the mix that you have given in your presentation of the adhesive and the construction chemical, it shows that the adhesive and construction chemical is growing at high-teens, whereas art still continues to be a drag. Is that correct?

Apurva Parekh: Yes, that is when we do art, it is arts and craft products and within those arts and craft products, there is a portfolio of product, which is a product for artisan segment, handicraft type of segment. So that particular segment, we still continue to see the stress and it has still not fully recovered after the demonetization. And also, there has been an increase in competition intensity in that segment. So that particular segment, which is part of what we classify as art and craft product, is still under stress.

Gunjan Prithyani: So that did see degrowth last year, right?

Apurva Parekh: That is right.

Gunjan Prithyani: So, would you say that FY2019 should stabilize or we should see a drag? Because the reason I am asking this is that if I look at the growth of the adhesives and the construction chemical, it actually is far better than the headline growth. So, if this drag is not then in FY2019, then we could actually have this complete flow-through in terms of 16%, 17% coming through in the overall reported numbers?

Apurva Parekh: As a matter of policy, we would not like to give out or call out any projection. This sector was under stress. We are hopeful that this stress now would stabilize and we should see stability in the sales growth. But I would not like to say whether what exactly will happen in the next year. We are encouraged by good growth rate in other two segments; they are the far two bigger segments. This is a smaller segment. This achieved a lot of good growth two years ago. Now it has seen some stress. We have to see how this year goes.

Gunjan Prithyani: Sure, the other two segments have really done very well.

Apurva Parekh: They are much larger and significant segments. And also, as I said, within this segment also, there are other products, which are like school craft adhesives and some of the hobby craft colors they are doing okay.

Gunjan Prithyani: Okay, got it. And the second would be on the VAM. If you can give us some sense how do you see this trend? I mean, of course, there has been a sharp increase that you've seen in past quarter. So where is it now? And how do you see in terms of demand-supply dynamics, is there something we should be worried about? Or it should just follow the crude in terms of inflation?

P. Ganesh: Yes. So currently, if you look at the VAM prices, they have moved up along with crude. But in terms of the way VAM behaves, it is not necessary that it should move in tandem with crude. And again, in terms of numbers, if we were to look at that in Q3, we have shared that the average price is about \$975; for Q4, it was up at \$1100. And if you look at current procurement prices, that is even higher. So VAM prices definitely are at an uptick and close to historic levels at this point in time.

Gunjan Prithyani: Sir current would be how much?

P. Ganesh: So currently, if we look at market spot prices, it is \$1300 plus.

Gunjan Prithyani: And it is still trending up?

P. Ganesh: Yes.

Gunjan Prithyani: Okay. And what kind of pricing action we are okay to take? You did mention that we will be okay to absorb, any thoughts there? I mean, just we should go by the EBITDA margin guidance? Or is there anything that you think we would be covering up 50%, 60% of the RM inflation?

P. Ganesh: Clearly, in terms of price increases, the raw material procurement cost will also be a major function in terms of our pricing decisions. And what we would do is we would not take across-the-board prices. This would be product specific, where the



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input cost impact is higher. Obviously, there would be some amount of price increases, which should kick in. So, this would be product specific.

Gunjan Prithyani: Okay. And just last one clarification in the other expenses, if you can give how much was the ad spend for the quarter and the year? And also, the provision, which you mentioned for the classification issue, was this captured in the other expenses in this quarter?

P. Ganesh: Yes, so for the two points. As far as the provision for the classification issue, that has been provided for by our joint venture, ICA Pidilite. So that is not something, which is there in the Pidilite Industries' books of account. Of course, it will come into consolidation, but not in the standalone books. The second point, as far as the A&SP spend, yes, it is part of other expenses and which is where you are seeing a significant uptick out there. The way we manage our A&SP spend is also not typically quarter-by-quarter. It is more activity led, which is why we are seeing a high level of spend in Q4. But what we should also remember is that at an overall full year spend, the total spend is at around 3.7% to sales versus the previous year, which was close to 3.5%. So, on a full year basis; it is not a very significant increase. It is actually more of a timing issue.

Gunjan Prithyani: But it would stay at 3.7% to 4% range going into F '19 also as you're looking to accelerate the volume growth?

P. Ganesh: Yes, so we have been typically operating in the 3.5% to 4% range. And as the business grows, the absolute amount which would be available for spends would also go up.

Gunjan Prithyani: Okay, got it. Thank you so much.

Moderator: Thank you. We have a next question from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Thank you for taking my question. We spoke earlier about how Pidilite has developed a full product portfolio of joinery products. Can you just give us a little



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bit of an update around that, especially in the background of the fact that the MDF market in India is growing very fast?

Apurva Parekh: So as far as joinery product portfolio goes, as we have shared earlier, we have now a good product range. We have a good route to market. Also, we have done a tie-up with this company called Jowat, which is a German company, which specializes in joinery adhesive. So overall, we are well prepared for this segment and we are taking all the appropriate actions to ensure that we have good market share in this segment.

Chirag Shah: Just elaborating further on that, on that Jowat JV, do we have access to their product portfolio?

Apurva Parekh: Yes, we have access to certain product. Yes, certainly.

Chirag Shah: Okay. Fair enough. Thank you.

Moderator: Thank you. We have the next question from the line of Kratika Rastogi from ACK Capital. Please go ahead.

Kratika Rastogi: Congratulations on a good set of numbers. I just wanted to ask one question, like how is the growth in the rural market and urban market? And how Pidilite is expecting like how it will like if revenues will grow in both the markets?

Apurva Parekh: So smaller town or the rural growth is certainly faster than the urban towns. And we are putting in extra resources to ensure that we are well prepared for the higher growth, which will come from smaller towns. So, we are seeing faster growth, like many other companies, in smaller towns.

Kratika Rastogi: Okay, and then I also wanted to ask, like, there is a shift happening because of GST from unorganized to the organized players. So how do you see the business will pick up in the future? How do you see the demand picking up?

Apurva Parekh: So, any shift that would happen from unorganized to organized would certainly benefit a company like Pidilite. So even here, as the GST implementation has

happened and as there is better enforcement, the companies who are not tax compliant will certainly suffer. And benefit of that, certainly, should come to more organized companies.

P. Ganesh: And I would also like to add that GST implementation, while it has reached a level of stability, things like e-Way Bill is still being rolled out. The invoice matching, which is the ultimate objective in terms of what entitles you for the credit- that is not yet implemented. So, it is also something where the entire implementation process will take some more time. And gradually, that is where the benefits for the organized players will also start showing up much more.

Kratika Rastogi: Okay thank you very much.

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

Atul Tiwari: Thanks a lot. Sir, in past, we have spoken about achieving 15% kind of revenue growth. And now we are there, at least in this quarter, and you were higher than that probably. And we are seeing demand revival. So should we expect next year a minimum of this growth and possibly even a higher number? I mean, should we reset our aspirations going ahead?

P. Ganesh: So again, as far as our aspirations are concerned, historically, over time, we have grown at 15% plus, and that has always been our stated aspiration in terms of growth numbers. But at the same time, you should remember that is not a target we are chasing. And we do believe that as a company, we do the right things, the outcome is something, which will follow. But having said that, if you look at the last couple of quarters, yes, the demand environment definitely is improving. The outlook definitely looks positive. Things are auguring well. But I would still say that probably the next couple of quarters is where some amount of definitiveness will come in terms of the demand pickup situation.

Atul Tiwari: Okay and Sir what will be consolidated capex in FY 2019 and FY 2020?



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P. Ganesh: Typically, capex is anywhere between 2% and 4% of our revenue and while we would be adding capacities etc., on an ongoing basis we would expect to be within this range.

Atul Tiwari: Ok Sir, thank you.

Moderator: Thank you. We have a next question from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: A couple of questions. Firstly, when the raw material costs are going up and you spoke about potential price increases also, but are there any pockets in the business, especially post-GST, post demonetisation kind of an era, where you think you can save enough costs so that price increases probably can regulate?

P. Ganesh: So, there are definitely a few areas in terms of whether it is the network optimization, in terms of how we distribute the products from a pure logistics play, etc., which again would get implemented over a period of time. But having said that, the kind of raw material increases which we are seeing currently is quite significant at this point in time. So, unless they moderate, I would guess some of the price increase would be on the cards.

Prasad Deshmukh: Sure. Second question, if I look at your debtor days, they seem to have gone up like I am looking at a post-Ind AS number. So, they have gone up from, say, 48 to 56 from FY2016 like two years consistently, they are going up. Is there any reason for this?

P. Ganesh: So if you look at the current year, we have also done the acquisition of Cipy, which has happened towards the end of the year. So what you would see in debtors is that the entire debtors would come and sit over there, but the corresponding sales is not there. So that is one major reason why the debtor days as of March 2018 has gone up.

Prasad Deshmukh: Got it. And the last question, in a post-GST scenario, there has a consolidation of industry consolidation and so on, whatever is being spoken about. The smaller

guys, how are they responding? I mean, is there a trend that they actually follow the right business practices and then probably start scaling up faster? Or is it like many of them are scaling downward?

Apurva Parekh: No, it is too early to say anything. I know the smaller players still exist, and they are trying to run the business as best as they can. And I do not think we would like to hazard a guess on how they transform or how they adopt themselves to this. I guess it would be a mix of it. Some of them may adopt and may become organized. Some of them may not be able to manage.

Prasad Deshmukh: Thanks a lot.

Moderator: Thank you. We have a next question from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Rohit Kadam: Hi Everyone, thanks for taking my question. So firstly, could you please explain the rise in other income? Quite a sharp rise this quarter we have seen.

P. Ganesh: So that is primarily on account of Treasury Income.

Rohit Kadam: Okay. But can you call out for some trends going forward? Or this will continue to be quite volatile?

P. Ganesh: So again, as we did complete the buyback towards the end of the year, so you could see some amount of dip driven by that in Q1. But as free cash flows keep getting generated, unless they are used for, say, acquisitions or any other purpose, you would expect to see an increase in Treasury Income, which we would have because the cash surplus is something which, in the normal course, would go up.

Rohit Kadam: Okay, got it. Sir and the second question was, on the EBITDA margin band, what is it that you mentioned would be a comfortable level for you? 20% to 22%?

P. Ganesh: Yes, typically 21%-22% going up to a 24%-25% that could be the band you could look at. Last couple of years we have been at the higher end of the band.

- Rohit Kadam:** That is right. I was looking at your gross margins historically. Now I think back in FY2011-2012, when we had a similar kind of crude spike, when crude was sort of low for a couple of years and then there was a sharp spike in crude and VAM, so we had about a cumulative 500 basis point gross margin impact over those two years. So, my question is, if you are looking at like a massive gross margin impact going forward given that you are not looking at sort of taking up sufficient price hikes, would you be willing to use your ad spends as a lever to kind of maintain EBITDA margin impact at a lower level?
- P. Ganesh:** I think ad spend is not something which would come in as a lever in terms of EBITDA margin. And we should also remember that we are talking about 3.5% to 4% of sales, not a very significant number. It is actually the effectivity of our advertisement expense probably, which might be creating an impression that these spends, absolute spends are very significant. And having said that, it will have to be a combination of sales mix, some amount of price increases as well as cost efficiency. It will actually be in such a scenario, there will be a combination of factors, which will come into play.
- Rohit Kadam:** Got it. That is helpful. Sir lastly any price increase you have taken in the last few months, which you could call out for, may be in the last quarter?
- P. Ganesh:** Yes. So, some of the products, we have taken price increases both in Q4 as well as in Q1 this year. And as I mentioned, this would also be product specific, again, not an across-the-board increase.
- Rohit Kadam:** Got it. That is very helpful Sir. Thank you.
- Moderator:** Thank you. We have a next question from the line of Shriram R from Sundaram Mutual Fund. Please go ahead.
- Shriram R:** Sir thanks for taking my question. I mean if I go a couple of years back towards the end of 2015, margins are around 14% VAM prices were around 900 mark, now today they are 1300 and the margin that you are saying is around 20-odd



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levels I mean is it sustainable or am I looking at a different picture can you just throw light on what towards the end of 2015 and compare it with what is it today?

Apurva Parekh: Can you please clarify the number? What are you referring to, 14% and 20% means which number are you referring to?

Shriram R: Yes, towards the end of FY2015 the margins were around 14% mark and at that time...

Apurva Parekh: Net profit margin or what are you talking about?

Shriram R: EBITDA margin Sir.

P. Ganesh: EBITDA margins were actually 17% to 18%.

Shriram R: And at that time, the VAM prices were around the \$900 mark, right? So today, I just want to make a correlation, I mean, if there is something. Can you just throw light on how the margins will be sustained going forward? Or how do you stay at 20% in terms of some input will be helpful.

Apurva Parekh: No, I think as Ganesh explained first of all, the VAM prices are still not at \$1300. I mean, this is a new buying price as of today. So, our current cost is not \$1300. But if there is a significant increase in material cost, we will take several actions to mitigate the impact of that. Now our point about remaining in a band is that we may or we may not be able to fully mitigate the impact of increasing the cost, but we will use the various levers that Ganesh talked about to mitigate as much impact of material cost that we think is judicious to pass on.

Shriram R: Okay, so you are saying, so how much will it be pass it on just in case can you put?

Apurva Parekh: As we said that we would like to operate, and Ganesh said we would like to operate, in a band of about 20% to 23% to 25% EBITDA margin. So that is the band in which we like to operate and, hence, we will take various actions on product pricing and other things to try to remain in that band. Now in the year,

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which you mentioned, when material cost has suddenly gone up from \$800 to \$1600, the impact was too fast and too sudden and, hence, it had an impact in one year. That is something, which can always happen, however, we will take whatever action we can to mitigate the impact of it while remaining in overall EBITDA band, which we have indicated.

Shriram R: Fine Sir, that is helpful. Thank you.

Moderator: Thank you. We have a next question from the line of Anand Shah from Axis Capital. Please go ahead.

Anand Shah: Sir just had a couple of questions here. Sir, firstly, on this margin profile for the domestic subsidiaries, with Nina and Percept and all, we have seen improvement. So, is this a level of sustainable margins? And also, on ICA, last year, it was about 11%. This year, obviously, because of the classification issue, you did see a drop in margin. So, what is the sustainable margin level there?

Apurva Parekh: Nina and Percept, we have been taking various actions to improve their margin profile, including improving the product and customer mix. So that has resulted in a good growth, but it is too early to say what a sustainable margin for the business is. But our endeavor is to continuously try to improve the margin of these businesses, and that is largely by improving the mix that we have. But we have to see this for next one or two years and see actually how this pans out. As far as ICA goes, we have explained, Ganesh has explained, the difficulty that we had. We faced some difficulty in Q3 and Q4 because of the product classification issue. While we are contesting that, the production and supplies have started. But long term, it is a very good and exciting business. It is a large market. It is a market, which is adjacent to Pidilite. And we believe that we can build a fairly decent-sized business in that subsidiary.

Anand Shah: Okay. And just one bookkeeping question. There are other categories also within this domestic subsidiary, so which businesses does this revisit? There is Rs.16 Crore revenue, for example, you recorded in 4Q, now Rs.55 Crores for the full year, apart from Nina, Percept, ICA and Cipy?



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- P. Ganesh:** This is actually a part of construction chemicals.
- Anand Shah:** This is part of construction but it is housed in subsidiary is it?
- Apurva Parekh:** Yes, we have a couple of subsidiaries, which we had acquired or set up as a joint venture, which then again supplies to other domestic subsidiaries. So that is one of that. There is also a Holdtite business, which we had acquired several years ago. So that Holdtite subsidiary has a manufacturing plant in Jammu. So that operation is a separate entity, but it supplies all the products to Pidilite. And that is, again, 100% subsidiary of Pidilite. So, some of these subsidiaries are captive in nature to sell products to Pidilite or its subsidiaries.
- Anand Shah:** Okay. And Sir, one more thing on construction chemicals, I had read somewhere that you have sort of split the distribution or you have a team, but you're now involved in educating and spreading awareness dedicated to the channel end consumers. Can you elaborate on that?
- Apurva Parekh:** Yes, we have a team, which is focused on sale and retailing, while there is a team, which is used into what we call a market development, so their effort is to educate customer, educate the influencers, to work with various people in the ecosystem to improve the sales of the product. So, it is a team that does not do retailing by going shop-to-shop, but it is involved market development.
- Anand Shah:** And this has been since how long?
- Apurva Parekh:** It has been since some time. The structure of a team keeps on changing from time to time depending on our priorities. But it's an approach that we have had for several years.
- Anand Shah:** And then on construction chemicals, the general uptick that you have seen apart from macro, would I be right in saying that brand-building initiative, especially Mr. Bachchan's campaign and all that, will have also helped significantly the margin growth here?



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- Apurva Parekh:** Yes, it has helped. It will help improve the brand awareness; product awareness and it will certainly help sales.
- Anand Shah:** Okay. And any specific product ranges there, which are doing really well in construction chemicals that you, can call out?
- Apurva Parekh:** No, we would not like to call out any particular brand or product. But it's a portfolio of product that we sell under Dr. Fixit brand, and several brands in that portfolio have done well.
- Anand Shah:** Thanks.
- Moderator:** Thank you. The next question is from the line of individual investor, Chirag Shah. Please go ahead.
- Chirag Shah:** Good evening Sir. Sir, my question is on ICA. Sir, I want to understand the normalized EBITDA margins going ahead, and also, the opportunity for exports?
- Apurva Parekh:** I think it is too early to talk about the normalized EBITDA margin, but let me explain what we are doing. We are setting up a plant in India, in Gujarat Jambusar. So, we are going to start manufacturing a lot of product in India. Earlier, most of the products were imported and repacked into India. So that is a big change, which is going to help the margin. Second is we have invested resources in sales and marketing, which would allow us to grow the business faster. So again, as the business grows faster and by local manufacturing, the cost would come down; the EBITDA of this business will improve. But again, we would not like to give any band out to projected margin. But clearly, we are working towards a structural improvement in margin over the next several years.
- Chirag Shah:** Okay. So, what will be the current margins? Because this quarter was a wash completely, that is why.



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P. Ganesh: So currently, the margins are strictly not comparable because sales were impacted as well as given that we have paid additional taxes under protest, the margins are also impacted. So, it is not strictly comparable.

Chirag Shah: Okay fine and who are the two close competitors to ICA?

Apurva Parekh: There are paint companies. All the paint companies I think Asian Paints has this business. There is a company called Sirca, which has this business. There are several players who are in the wood finishes market. Some of them have premium wood finishes like Asian Paints and a couple of other companies. But largely, paint companies are in this segment and there are a couple of other companies who are also into wood finishes. We are operating at the higher end of the markets. We are operating in specialized premium wood finishes, which we believe is a faster-growing market. Currently, the focus is on the domestic market, but that is where we are working towards scaling up.

Chirag Shah: Okay. Sir any outlook on revenue for FY2019 for this particular segment?

Apurva Parekh: So, we would not like to give any outlook. But you can understand from our efforts that since we are setting up a manufacturing plant, we have entered into this joint venture, it is clearly with the intention of making it a sizable business. But what it could actually be in next one or two years is something, which we would not like to call out.

Chirag Shah: Okay Sir. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Manish Poddar from Renaissance Investment. Please go ahead.

Manish Poddar: Apurva, congratulations for results. Just wanted to get your thoughts what would give us confidence that you know more confident about the outlook going ahead, what matrix you are internally would suggest?



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Apurva Parekh: We do not look at metrics like that. But our effort is to have a proper strategy and then to ensure that we execute the strategy well. Now certainly, sometimes there are certain factors, which would not allow us to achieve our desired growth rate, but our effort is to continue doing the right set of things and that is what we are clearly focused on. So, we really do not spend a lot of time looking at external factors, which are not in our control. We continue to do what things, which we believe, are right for the business. And if sometimes the factors are against you, we may see a little slower growth rate. But on a medium-to longer-term period, we believe that if we execute our strategy well, we should be able to achieve our desired growth rates.

Manish Poddar: Okay. And have you called out any price hike, which you have taken, let us say, off late to cover this RM price pressure?

Apurva Parekh: Yes, we have taken price increase in some of the products already. And if there is further strengthening of raw material price, we will take further appropriate pricing actions.

Manish Poddar: How much would be blended let us say broadly?

Apurva Parekh: Currently I think, Ganesh anything on that.

P. Ganesh: So again, these are product specific. So, if you look at the rubber-based products, again there was a significant increase in RM costs. The increases would be in the range of, say, 2% to 5%.

Manish Poddar: Thanks.

Moderator: Thank you. Next question is from the line of Sanket Sanghvi from Ajcon Global. Please go ahead.

Sanket Sanghvi: Thanks for taking my questions. Sir, my question is in 2018, you entered into a joint venture with Jowat, so it is a leading industrial adhesive. So Sir, where do

you see how much percentage of revenue would be coming from this sector? And how much kind of market share do you assume that it will dominate in India?

Apurva Parekh: So first of all, it is not a joint venture. And second is we would clearly not like to give any specific figures about an individual business like this. Jowat is a leading player in a certain type of adhesive, and our tie-up with them would certainly help our business. But I would not like to give out specific figures of how much we plan to achieve or what share we are likely to achieve. But it will clearly strengthen our business and would help us grow faster in that product technology.

Sanket Sanghvi: Okay, one more question, Sir. As we have seen in quarter-on-quarter results, the Consumer & Bazaar products, the revenue that we were earning has gone down. So, could you just highlight more on that thing?

P. Ganesh: No so if you look at growth, in fact, Consumer & Bazaar sales, we have actually had a good growth..

Apurva Parekh: So, I think he is comparing Q3 values. See, quarter-to-quarter comparison is not valid for us. There are various factors of seasonality and otherwise and, hence, you cannot compare Q3 sales with Q4 sales. That is what you are asking, right?

Sanket Sanghvi: Yes.

Apurva Parekh: Also, that is not comparable at all in our case because of seasonality and several other factors, which are channel inventory and other things. So traditionally, for us, Q4 is the slowest quarter, and Q2 and Q3 tend to be higher quarters. This is a pattern that you will see for the last many, many years.

Sanket Sanghvi: Okay, thank you Sir.

Moderator: Thank you. As there are no further questions, I now hand the conference back to the management for closing comments.

P. Ganesh: I like to thank everyone for coming on the call. Thanks a lot.



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

(This document has been edited for readability purposes)