

28<sup>th</sup> May, 2019

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Mumbai - 400 001  
**Stock Code – 500331**

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

**Sub: Transcript of the Earnings Call**

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Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 15<sup>th</sup> May, 2019.

Kindly take the same on your records.

Thanking You,

Yours faithfully,  
**For Pidilite Industries Limited**



**Manisha Shetty**  
**Additional Company Secretary**

Encl: as above

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“Pidilite Industries Limited  
Q4 FY2019 Earnings Conference Call”

May 15, 2019

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



*Pidilite Industries Limited*  
*May 15, 2019*

**Moderator:** Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q4 FY2019 earnings conference call hosted by Axis Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by entering“\*\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Axis Capital. Thank you and over to you Sir!

**Anand Shah:** Good evening, everyone and on behalf of Axis Capital, I welcome you all to the Pidilite Industries Q4 FY2019 Earnings Call. We have with us the senior management represented by Mr. Apurva Parekh, Executive Director; and Mr. P. Ganesh, the CFO. With that, I would like to hand over the call to the management for opening remarks. Thanks, and over to you!

**P. Ganesh:** Thank you, Anand. Good afternoon, everyone. The current quarter has seen some moderation in growth as a result of lower near-term market growth. We have delivered double-digit volume growth for the fiscal 2018-19. Gross margins have improved sequentially and are now close to gross margins of Q1 FY2019. Price increases taken during FY2018-19, coupled with softer input cost is expected to aid further improvement in margins going forward. We remain optimistic in the medium term of delivering consistent, profitable volume-led growth.

I will begin with a summary of the financial performance for the quarter and year ended March 2019 of the stand-alone business. Coming to sales, net sales at Rs.1367 Crores grew by 8% over the same quarter last year with underlying sales volume and mix growth of 2.5%. This was driven by a 4% growth in sales volume and mix of Consumer & Bazaar products and a 1% decline in sales volume and mix of Industrial Products. Volume plus mix growth for half year H2 FY2019 is at 6.8% driven by our 8.8% growth in sales volume and mix of Consumer & Bazaar products and a 1.7% decline in sales volume and mix of Industrial Products. Comparable net sales for the FY2018-19 stood at Rs.6048 Crores and grew by 15% over the previous financial year.

Coming to the gross margins and EBITDA. EBITDA before non-operating income stood at Rs.263 Crores and grew by only 3% over the same quarter last year given the input cost-led



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contraction in gross margins by 2%. However, gross margins have improved by 3% versus Q3 FY2019 and are now close to gross margins of Q1 FY2019.

The current spot price of our major raw material, that is VAM, is about \$950 as compared to the Q4 consumption cost, which was over \$1,100 on account of higher-cost RM inventory. EBITDA for the FY2018-19 stood at Rs.1298 Crores and was flat over the previous financial year given the input cost-led contraction in gross margins.

Profit after tax stood at Rs.243 Crores and was higher by 2% over the same quarter last year. Current tax for the quarter includes Rs.53 Crores being excess provision of earlier years now written back. Excess tax provision written back in Q4 of the previous year stood at Rs.46 Crores. Profit after tax for the full FY2018-19 stood at Rs.979 Crores and grew by 3% over the previous financial year.

Now I will move to the summary of the financial performance for the quarter and year ended March 2019 for the consolidated business. Coming to sales, net sales at Rs.1631 Crores grew by 11% over the same quarter last year. Comparable net sales for the FY2018-19 stood at Rs.7035 Crores and grew by 17%, excluding the sales of Cyclo division of Pidilite USA Incorporation, which was sold by Pidilite USA in June 2017.

Gross margins and EBITDA. EBITDA before non-operating income stood at Rs.279 Crores and grew only by 2% over the same quarter last year given the input cost-led contraction in gross margins. EBITDA for the FY2018-19 stood at Rs.1376 Crores and grew only by 2% over the previous financial year. Profit after tax at Rs.237 Crores declined by 4% over the same quarter last year. Exceptional items represent diminution and impairment in value of investments for the quarter ended March 2019, amounting to Rs.11 Crores and for the full financial year amounting to Rs.18 Crores. Current tax for the quarter includes Rs.53 Crores being excess provision of earlier year now written back. Excess tax provision written back in Q4 of the previous year stood at Rs.46 Crores. For the full FY2018-19, profit after tax at Rs.928 Crores declined by 4% over the previous financial year.

Moving on to our subsidiaries' performance. Our domestic subsidiaries recorded a sales growth of 24.9%, while international subsidiaries grew by 8.4%. Our subsidiary Nina's net profit was impacted by a provision of Rs.4.4 Crores made against a fixed deposit of Rs.8.8



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Crores placed with the IL&FS Group. The fixed deposits placed with the IL&FS Group now stands fully provided for.

Many of our focused international geographies, including Bangladesh and Sri Lanka have reported reasonably good sales growth. EBITDA across some of the international subsidiaries was impacted by high input cost and foreign exchange fluctuations. We continue to remain focused on SAARC, Middle East and Africa markets as our growth drivers in the international business. We can now open the floor for questions.

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

**Avi Mehta:** Hi, Sir, just two questions. First, could you help us understand what exactly is the reason that you saw such a sharp moderation from the Q4 levels? And has there been any improvement from those levels, which is what gives you the confidence or is it still very volatile? Just if you could kind of give any color on that front?

**Apurva Parekh:** So, if you look at Consumer & Bazaar growth, in Q4, the volume growth was about 4%. One reason for lower growth was the price increase that we took in December, whereby in some of our key products in Fevicol and construction division, we have done price increases. So that resulted in a higher sales growth. If you look at the second half growth for Consumer & Bazaar products, the volume growth was about 9%. We do not manage quarter to quarter. So, I think the second half is a better indicator of what we have. Going forward, in the short and medium term, there is the election and other factors but overall, we remain cautiously optimistic about growth improving, and the second half of the year is a better indicator than just looking at last quarter.

**Avi Mehta:** So, when you say second half is a better indicator, you are saying that would be the trajectory that should sort of?

**Apurva Parekh:** No. I was not trying to point to any trajectory or anything. As you know, that could be like giving a projection. I am saying that H2 is a better indication of how we have grown in the year and don't just look at the last quarter.



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- Avi Mehta:** Okay, Sir. Second bit was on the pricing bit. Has there been any pricing action in the market during the quarter or till date in terms of given where the demand environment or the input cost is?
- Apurva Parekh:** Avi, not in any of the major products. We have not had any price increases or decreases in the last quarter. The significant price increase was done in December of 2018. But now as you have seen, we have had a fairly significant sequential improvement in gross margin. So currently, there is no need to further increase the prices.
- Avi Mehta:** And Sir, how is the channel health? Any concerns or all is well over there given liquidity, etc., concerns that, other players are highlighting?
- Apurva Parekh:** We are not highlighting anything insignificant other than saying that there is some near medium-term demand challenges that we have seen in the last quarter. Basically, it is demand that results in lower offtake from the channel.
- Avi Mehta:** Okay, Sir. Whereas coming from and is the VAM Q4 average I did not get, if you could just highlight that? That is all from my side.
- P. Ganesh:** So, in Q4, our consumption cost was over \$1,100.
- Avi Mehta:** Oh, Q4 was \$1,100. So, there has been a significant correction from even that level? Okay.
- P. Ganesh:** Q3 was upwards of \$1300. So, there was a correction in terms of consumption costs versus Q3. Q4 is much lower, and we expect it would be even lower going forward.
- Avi Mehta:** Oh, so that essentially gives us some room or headroom in the gross margin side as well to kind of manage. Would that be a fair understanding? So, there should be some leeway? Or how should I look at it from a gross margin going forward? Is there a cost element that was there?
- Apurva Parekh:** What Ganesh is trying to say is that the reduction that will happen from the current spot rate is not fully factored into the gross margin of the last quarter because our consumption rate of VAM in the Q4 is about \$1,100 while the current spot rate of VAM is about \$950.
- Avi Mehta:** Oh, so there more tailwinds over there in the gross margin side? Perfect.



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- P. Ganesh:** And then typically you also end up holding some inventory so any price reduction in spot prices will actually kick in a while later, typically in the following quarter.
- Avi Mehta:** Okay, but I mean essentially that is where the trajectory is on the gross margin side that essentially gives us some comfort. Perfect.
- P. Ganesh:** At this moment, yes.
- Avi Mehta:** Perfect Sir. That is all from my side. I will come in the queue if there is anything else. Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, thanks. My first question is on the Industrial Products. I see in Q4 and full year, both the profits dipped. So, has the entire industry not taken commensurate pricing increase or only you have been cautious and tried to gain market share, could you elaborate that?
- Apurva Parekh:** In Industrial Products, in any year, if you see historically also, when there is a significant increase in input cost, it does impact margins. And we, as a Company, are a little bit more cautious about not doing business that is low margin. So, it is not about us trying to take share or anything. The input costs have gone up. So wherever input cost went up had an overall impact and also this business depends a lot on mix. So, you cannot exactly compare one quarter to other. But if you look at the year by itself, the increase in input cost had an impact on the margin of the business and as a Company, we are now for last few years focusing on a better margin portfolio within Industrial Products.
- Abneesh Roy:** Sir, to follow on, so when does the mix change start impacting numbers? Second, you said VAM has corrected further from Q3 to Q4 and further now. So, is that the main raw material we should track even for Industrial Products and when there is a sharp cut in the raw material price being B2B, does this segment see a sharp pullback in margins or because it is B2B, the pricing power is very limited, so you need to pass on the cut in the raw material prices?



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- Apurva Parekh:** So B2B business, the pricing power obviously is lower than Consumer & Bazaar products. So B2B business when the costs go up, it does take a little bit time for consumer to accept the price increase, and also there is competitive factors at play. Overall our leverage and our ability to pass on price increase is not as strong in Consumer & Bazaar products. However, we as a Company are very clear of the margin range in which we want to operate even within Industrial Products. So, it can impact our business sometimes because we will not do business at lower margin. So that is the answer on it. As far as when we will see the impact in product mix, I will urge you to go back over the last five years, if you see our business at fairly low EBITDA with a profit margin in industrial business that has been steadily going up. Again, last couple of years it has corrected a bit, but it is still higher than what it was four to five years ago.
- Abneesh Roy:** Sir, I could not get full clarity. So, my question was when raw material comes down, then what happens? You answered on not able to pass on the inflation happens, but my question was on the other way.
- Apurva Parekh:** When it goes down, the customers are more demanding in terms of asking us to cut price, also competition is involved, so whenever there is a reduction in raw material price, it would generally help us, but we would not be able to retain the full impact because the other competitors are also involved and consumer is aware that the cost has gone down and he immediately will ask us for reduction. But however still, if you see when material cost goes down, it would help us a bit, not the entire benefit would flow into us. We will have to pass on fairly quickly some amount of the cost reduction.
- Abneesh Roy:** Okay. Sir, second question is on Egypt and MEA now....
- Apurva Parekh:** Finishing that point on industrial products, our focus is towards more specialty products and on focusing towards the higher end of the margin and improving both customer and product mix is critical to improving the overall margin of this business.
- Abneesh Roy:** Sir, that is helpful. Coming to international business, in Egypt and MEA, we are seeing this quarter loss, full year loss, and last year also the same trend losses. So, for two years and quarter-on-quarter losses, what is the plan here long term? Do you want to remain in these businesses, especially Egypt is very small business anyway? Would you exit also at some stage?





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**Apurva Parekh:**

Let me answer Middle East first and then come to Egypt because Middle East has a larger loss. In the Middle East, what has happened, we had talked about this in the past call. We have sort of made an effort to grow our construction chemical business. We had hired a set of people. We had commissioned a new part of our manufacturing plant, and we have been investing to grow in that construction chemical business in that market. Now that side of the business has not done very well because again a bit of slowdown in the market, significant competitive pressures. So, what we have done is scaled down the business, and we have reduced our expenses and hence if you can see the overall losses have come down. However, we still believe it is an important market and we want to continue to make an effort to see whether we can succeed there in the long term. So, in that process, we are incurring some losses but it is a very large and important market. And if we succeed there, it can have a greater sort of benefit across other geographies as well. So, we still want to do a bit more work there. However, in the short term, we have reduced some of the expenses, and hence the losses have come down. What is not showing in this number fully is the export that we do from India of our Consumer & Bazaar products to that market. Now that business is doing fairly well, but the bulk of the profit of that business is captured in India, where we export Fevicol and other products to that market, that business is doing well. Egypt is a question mark. The country has gone through a lot of ups and downs. It is a difficult market. But in terms of our long-term strategy of creating a successful business in Africa, I think we need to stay committed for a few more years. We are continuously trying to evaluate what strategy can help us succeed there, but it is a small business and small loss but I think it is important from a longer-term approach. So as of now, we are committed to Egypt as well. We have setup for a good manufacturing plant there, but that country has gone through a lot of ups and downs and difficulties, but we want to persist for some more time.

**Abneesh Roy:**

Sir, my next question is on the new product strategy. So Pidilite clearly wants to have a lot of growth coming from the new products launched in the last three years. So, could you quantify how much of the growth or how much of the sales is coming from new products of the last three years and which are the products you would actually want to name in terms of success because that is the key growth driver and that is difficult to track in your business because it is not that visible, so if you could clarify?

**Apurva Parekh:**

As of now, we are not quantifying the numbers. So, while I will not share numbers, but will give you idea and I may have said this in some of the earlier calls as well. If you look at our



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products like HeatX and Hi-Per, these are two new variants within Fevicol that have done extremely well. There was one more variant which was introduced last year called Fevicol Ezee Spray, which is a sprayable adhesive. So, if you look at these three variants within Fevicol, all with distinctly superior properties, they have all done very well in the last couple of years. Some new products that we have introduced in our tiling portfolio which is a fast-emerging segment. Some of those products have done well. So, this is just to give you some examples.

**Abneesh Roy:** And these tiling and Hi-Per products will be higher gross margin than the company average currently in the Consumer & Bazaar?

**Apurva Parekh:** Both are comparable. I would not say they are higher but both are in that range.

**Abneesh Roy:** And, Sir, last question. VAM has corrected significantly, what would be your pricing currently based on the current scenario? Have you taken in the past some price cut also when sharp correction in raw material happened because that does disrupt the trade distribution channels, so if no, will it be fair to assume sharp gross margin expansion in coming quarters in Indian Consumer & Bazaar?

**Apurva Parekh:** In the past, when there has been significant reduction, if you remember, when VAM had gone up to \$1,600 three or four years ago and after that there was a sharp correction, we had passed on some of the price reduction. So, while it may create some channel disturbance, there is some expectation from the channel that some amount of the reduction will be passed on, especially when there is a very sharp reduction. So that is what we have done in the past. Going forward, we are closely watching and we are seeing what would be the demand scenario and if we may pass on some of the reduction as discount or in some other manner. So, it is something that we very closely watch and if we believe that there is a need to pass on some reduction, we will do that.

**Abneesh Roy:** But till now, nothing has happened, right?

**Apurva Parekh:** Till now, we have not reduced the price, no. We may have increased the discounts in some products, but there has been no reduction in price as such.

**Abneesh Roy:** Okay Sir. That is all my from side. Thank you.



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- Moderator:** Thank you. We have the next question from the line of Amit Purohit from CIMB. Please go ahead.
- Amit Purohit:** Good evening, Sir. Thank you for the opportunity. Just on this construction chemical based on your presentation, we see construction chemical growing a bit slower than the adhesive segment for FY2019 and also on your comment as far as the Nina business is concerned, you indicated that it did not do well **because one higher base** and some challenges in market conditions. So, can you explain some more on this market condition, are you referring to demand or you referring to competition?
- Apurva Parekh:** You are asking about our subsidiary Nina and Percept?
- Amit Purohit:** Correct. So, I am referring to actually the construction chemical market, is it more to do with the demand conditions being challenging or is it competitive intensity?
- Apurva Parekh:** So just to give you an idea of what Nina and Percept does. Nina and Percept are waterproofing services companies, so they are large contracting companies which do large waterproofing projects in the building segments like commercial buildings, residential buildings, factories, etc. Yes, that segment has seen some stress, particularly in the large builder and construction segments. So, we are a bit more cautious about the type of business to be done and that has had some impact on the growth in the last quarter because we do want to be cautious in this segment. But overall, if you look at the year by itself, the growth has been very good. Obviously, this is a small business and its quarter-on-quarter numbers are not very indicative, especially because it depends on the amount of work that is finished in the quarter. But there is some stress, as we all know, in the large builder segment, and we are cautious about it and that would have had some impact on the growth in the Q4. Also, if you see the base of last year, the last quarter sale base was quite high and that also had an impact on the growth. By itself, if you see the sale of Q4 is comparable to first three quarters.
- Amit Purohit:** Sure. Thank you for this explanation. Just would this have some effect on the overall construction chemical market also for FY2019 or in the Q4?
- Apurva Parekh:** So, I would not link Nina and Percept to this because Nina and Percept are largely involved in large constructions as a segment. Our CC retail, which is a part of standalone is not into



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large projects. There is some sale that goes into large projects, but a bulk of their sales is retail and into medium and small projects. So, there is no direct correlation between the two, but both will have some impact because of the stress in some segments of construction and the impact will be bigger on Nina and Percept.

**Amit Purohit:** Sure. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Chintan Shah from Investec. Please go ahead.

**Chintan Shah:** Thanks for taking my question. Sir I wanted to understand how the industry has done. I mean, we saw some decline in volumes because of price hikes, but have the other players also facing the same thing? Or, how is it?

**Apurva Parekh:** Chintan we do not have data of other companies but I would again urge you all not to look at a quarter. If you look at the second half by itself, the Consumer & Bazaar product business has grown by 9%. If you look at full year, our volume and mix growth of Consumer & Bazaar products is 12%. Now if you look at the GDP growth estimate, we are almost talking about close to 2x of GDP growth. So, if you look at the year by itself, we do not believe that we have lost share in any of our major categories when our growth is almost 2x the GDP growth.

**Chintan Shah:** Okay.

**Apurva Parekh:** And even for second half by itself, the growth of Consumer & Bazaar products is more than 9%.

**Chintan Shah:** Okay. So, the industry growth is strong, right? So, industry is growing right

**Apurva Parekh:** Yes, again I think quarter-to-quarter it is very, very difficult because there are a lot of factors at play. Price increase is an internal factor and we have done that, but overall the economy can have some changes in terms of the consumption and demand. A lot of factors play in terms of channel, in terms of end user, in terms of overall demand scenario, labor availability etc. So, a lot of other factors can have a short- to medium-term impact and



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hence I would urge you to look at a slightly longer period, which is preferably one year to get the right idea or at least the last six months.

- Chintan Shah:** Okay. That is great. Thank you, Sir.
- Moderator:** Thank you. We have the next question from the line of Ashish Shah from Tara Capital. Please go ahead.
- Ashish Shah:** Thanks for the opportunity. My question is that our VAM cost would be around \$950 in Q1 based on the inventory we hold, but what would be the spot price, Sir?
- P. Ganesh:** So, the \$950 price, which we indicated is the current spot price. What we are saying is while the consumption cost in Q4 was \$1,100 given where our spot prices have been currently, you should see a sequential reduction from the levels you have seen in Q4.
- Ashish Shah:** Okay. So, the spot prices as well as the inventory, I mean the price based on the inventory, both are at \$950?
- P. Ganesh:** So again, \$950 is an indication of what the current market price is. What we are saying is that in Q3 our consumption cost was as high as \$1,300 plus. That has come down by more than \$200 when we look at consumption cost of Q4 and looking at where VAM prices have been in the near term, we should see a further reduction when we get into Q1.
- Apurva Parekh:** So, \$950 is a new purchase price. It is a new spot price. Our closing inventory, the stock available would be higher than \$950, less than \$1,100, but higher than \$950.
- Ashish Shah:** Got it, fair enough. Sir, my second question is that we have taken an impairment of around Rs.11 Crores this quarter, of which Rs.4.4 Crores, I understand, is related to IL&FS. What would be the remaining impairment for?
- P. Ganesh:** The remaining impairment is also impairment of some of the investments made by our subsidiaries.
- Ashish Shah:** Sir, can you highlight the names because Rs.6.6 Crores of impairment apart from IL&FS?



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- Apurva Parekh:** We have invested company in a waterproofing contracting company in the Middle East, so we had acquired a stake in a company there with a small investment, less than Rs.5 Crores, with an objective that if that company does well we can increase the stake. So that company has not done well. That is into waterproofing contracting, similar to Nina, Percept type of business but operating in Middle East.
- Ashish Shah:** Okay. So, it is an equity investment, not an FD or something like that where this is?
- Apurva Parekh:** No, this is a strategic investment in a waterproofing contracting company and there the first tranche of investment was small with the objective, if that business does well then, we can increase the investment, but as the business has not done well, we have impaired that investment and decided not to invest anything further into that business.
- Ashish Shah:** Fair enough. Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jay Doshi:** Thank you. Just a small bookkeeping question. On crude, other crude-related raw materials, how has the index moved between March quarter and currently? Are you seeing similar tailwinds on other raw material basket also?
- Apurva Parekh:** So generally, yes. I think if you look at other raw material item, like acrylics or solvents like toluene, we are seeing reductions, but there are some specific raw materials like polyvinyl alcohol and there, we are not seeing that reduction. But across the board, if you see, yes, we are seeing reduction in number of raw materials.
- Jay Doshi:** That is helpful. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Thanks a lot. Sir, can you elaborate a little bit on the proportion of industrial revenue as a total revenue because if you see global giants like Sika or Henkel or Bostik, their industrial proportion of adhesives is much higher than the consumer or retail proportion and would you see yourself going in that direction over for 10 years?



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- Apurva Parekh:** Yes. If you were asking only about adhesives and sealants, then you know we have that breakup in annual report. I think our adhesive and sealant consumer and craftsman, adhesive and sealant is about 50% of our turnover. It is about 56% and industrial is about 4%. So, if you look at our total turnover of 100, the branded adhesive and sealants is about 56%, and industrial adhesive is 4%. Yes, you are exactly right. A company like Henkel and some of the other company have greater focus on industrial adhesive and hence, their contribution of industrial adhesive is much larger. While we have as a Company become very successful in branded adhesives and sealants, our focus is more on consumer and craftsman market, and hence, our proportion of that is much higher because the nature of the two businesses are very different, so that is the case.
- Pranav Tendulkar:** Sir, I actually understand that, but I am just asking from a market sizing perspective is there a much greater opportunity in industrial adhesives and there is a glass filling in consumer adhesive, is there a case like that?
- Apurva Parekh:** There are two ways to look at it. Yes, it is a large market. It is not larger than consumer and craftsman in India. In India, the consumer and craftsman market is larger. Yes, we have a significant share in that but we believe that this is our strength and that the market also will continue to grow at reasonable growth rate. Our share is lower in industrial adhesive, but that does not automatically mean that there is a larger opportunity. And you see our market position there is not as strong in consumer and craftsman and we as a Company are focused on both, but our greater focus is on consumer and craftsman adhesives.
- Pranav Tendolkar:** Right, so Sir per capita retail consumption in India is still a lot to grow?
- Apurva Parekh:** Yes, we believe that there will be steady growth and we have been seeing that also. First of all, the penetration and consumption levels in India are low, and hence, we believe that the branded consumer and craftsman adhesive will also continue to grow at healthy rate going forward. We continue to work hard at the industrial adhesive portfolio, and we are upgrading our technology and doing a lot of things in that space as well, so that provides us a good growth avenue but that is a segment with greater competition both from multinational and Indian companies.
- Pranav Tendolkar:** Right. Thanks a lot Sir.



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- Moderator:** Thank you. We have the next question from the line of Prachi Kodikal from Bay Capital. Please go ahead.
- Prachi Kodikal:** Good evening Sir. My question is related to the finance cost. On a full year basis, if you look at the finance cost, it is almost gone up by 70% on a consolidated basis. Can you tell us what is this related to?
- P. Ganesh** Yes, so the primary reason for the increase is on account of the option valuation of our investment in CIPY, where we have the right to acquire the balance 30%. What Ind-AS requires is that the potential liability on account of this 30%, this is valued and then discounted to the present value. So, it results in an interest unwinding as the years go by because this right kicks in at a later point in time. So, while it is a non-cash item for the year, what it means is that it is actually bringing in the present value of the future liability through the P&L. It is an Ind-AS adjustment.
- Prachi Kodikal:** Okay, got it and the other question I had was on your industrial segment. In your last quarter you had mentioned that there was a lot of price undercutting going on by the competitors in the industrial segment, and now that we are seeing the VAM prices cool off, do you think this would intensify further?
- Apurva Parekh:** So industrial business, by its very nature, remains competitive both when there is a raw material cost going up or down. When it goes down people have a greater room to be competitive, but the nature of that business is more competitive.
- Prachi Kodikal:** Okay, got it and just one more question. On the construction chemical side, could you give us a breakup of how much of it would be B2B and how much of it would be B2C?
- Apurva Parekh:** Bulk of the business is B2C. We have to see standalone and the subsidiary separately. If you look at our subsidiary, Nina and Percept, it is largely B2B. If you look at our other subsidiary called CIPY also it is largely B2B. As far as our standalone construction paint and chemical business goes, bulk of it is B2C. By B2C, I mean consumer or craftsman, and some amount of it will be B2B, so that is the idea.
- Prachi Kodikal:** Got it. Thanks, that is it from my side.





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- Moderator:** Thank you. We have the next question from the line of Aatman Ajmera from Nordea Asset Management. Please go ahead.
- Aatman Ajmera:** Thank you for taking my question. I just have one from my side. My question is more on the long-term margins not about this quarter, the next quarter, but structurally, when I look at the VAM prices, let us say in 2015 spot prices, your gross margin was close to around 45% and for similar levels right now your gross margins are significantly higher. So, is it fair to assume that for the same VAM prices you would structurally be able to increase your gross margin by product mix or something like that or is that a wrong interpretation?
- Apurva Parekh:** No, I do not think it is a correct interpretation. When the VAM prices had gone to \$800, \$900 last time, our gross margin was fairly high, maybe there is a timing or a quarter or two quarter difference.
- Aatman Ajmera:** Okay, so I cannot assume that let us say four years out right now, if you give the same VAM prices yesterday, we cannot assume that gross margin will be structurally higher. That is not the right way to look at it?
- Apurva Parekh:** I think structurally whenever VAM is at this kind of level, our gross margins generally are better. So, if you look at a five-year period and see the period of very high VAM prices versus low prices, it will have correlation with the gross margin but you may not have got the timing correct in terms of the spot price and the gross margin. There could be quarter-to-quarter difference because of the inventory or something, but whenever the VAM prices go to like \$800, \$900, our gross margins are at the higher end of the band.
- Aatman Ajmera:** Understood, but I think maybe I was not clear. The question I am asking let us say VAM is 1,000 today and you have a gross margin of 45, this is an example, the next time is 1,000, will the gross margin again be 45 or maybe 5 years out for the same VAM prices might be at 47?
- Apurva Parekh:** Five years out is very, very difficult to speak about the product mix and what pricing actions we will take.
- Aatman Ajmera:** Fair enough. That is all from me.



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- Moderator:** Thank you. We have the next question from the line of Keyur Pandya from ICICI Prudential Life. Please go ahead.
- Keyur Pandya:** Thank you for the opportunity. Sir as you mentioned that H2 is a better indicator for the business performance, so from H2 situation, have we seen any change in momentum as far as business is concerned, either positive or negative. This is first question and the second question, any margin guidance range that you used to give and whether it could be led by gross margin expansion or operating leverage?
- Apurva Parekh:** I will answer the first question. On the demand itself, the new year has just started, plus this is election period right now and hence would not like to comment on the demand scenario in the current year. But yes, on the first point that you made, the second half of the year is a better indicator. It smoothens out the impact of price increase and other things. And hence, it is a better indicator of our growth scenario last year, but current year, it is too early to comment anything and you will have wait until the end of quarter to get some idea and possibly end of half year to get even better idea. Regarding gross margin, Ganesh, you want to talk about the range in which we operate?
- P. Ganesh:** Yes, so typically if you look at the EBITDA margins we have over a medium term, operated in a typically 21% to 24% kind of EBITDA margins and we have also seen years where it has gone a bit higher than this or a bit lower than this, but this is a kind of range which we are comfortable operating at, and that is from a medium term that we have consistently guided.
- Keyur Pandya:** Okay, perfect, but so my point is the investment that we do either through overheads or marketing spend, so my point is will we see any operating leverage or we will continue to spend on marketing and employee strength, that margin expansion would be led by gross margin expansion or operating leverage?
- Apurva Parekh:** It would be primarily led by gross margin because material cost is our biggest cost-head, which is almost 50% and hence the biggest benefit in the gross margin would be both from pricing action or the raw material cost reduction. We will get some leverage, but as a company, we are still focused on driving consistent double-digit growth. We are investing in building capabilities and our brands. We want to create new product categories to



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accelerate our long-term growth, and hence, we do not expect to get significant leverage out of say staff cost or advertising and promotion and some of those expenses.

- Keyur Pandya:** Perfect, okay. Thank you, Sir and all the best.
- Moderator:** Thank you. We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Thanks for the opportunity. When I look at your presentation of last year same quarter and this year, especially the page wherein you have given the overall sales contribution of each of the category, I get an impression that give and take, the adhesive segment has done better than the overall construction chemical segment. I mean I am basing my argument based on the contribution sheet again, I might be wrong, but yes, I mean for the overall year FY2019, have you seen better growth in adhesives and sealant subsegment compared to construction chemicals in Consumer & Bazaar?
- Apurva Parekh:** So, both of these segments have done well in the last year.
- Amit Sinha:** Yes, done well, I understand, but it looks like that adhesives and sealants has done better than construction chemicals.
- P. Ganesh:** What you are seeing over here is there are marginal variation, where you see adhesives and sealants going up a little bit and art craft material and others going down a little bit.
- Apurva Parekh:** That's for construction chemicals.
- P. Ganesh:** Yes, so overall if you see whether it is adhesives sealants whether construction chemical space which they all have done more or less equally well. So, across the board, most of our divisions have done well.
- Amit Sinha:** Right and basically in the context of your overall medium-term to long-term guidance of construction chemicals doing better compared to adhesives and sealant segment, so basically my question was that, was there any kind of one-off or was there any kind of moderation which you have seen and especially Dr. Fixit as a category?



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- Apurva Parekh:** But, if you look at construction and paint chemical, which was 20% is again 20%, so there is no change in that. Adhesives and sealants have changed from 55% to 56%. So that is a very minor change. Construction and paint chemicals has grown at the company level, again and so this data does not indicate the construction and paint chemical has underperformed or anything of that nature.
- Amit Sinha:** Agreed Sir, but you have guided for a better growth in construction chemicals?
- Apurva Parekh:** It is both construction and paint chemical there, and yes, we do believe that construction chemicals we have guided better and also one more thing in adhesives and sealants, last year the price increase element was higher than construction and paint chemicals.
- Amit Sinha:** Okay, got it Sir and my second question is while I understand that the current spot prices of VAM is \$950, any kind of commentary you would want to give on the overall VAM prices expectation going forward in the next six months or next one year depending on the demand, supply scenario globally?
- Apurva Parekh:** Amit, you have seen how the VAM prices fluctuate. So, it is very difficult to give any projection. The VAM prices have some linkage to oil prices and also demand and supply scenario, but, you know, in Q3, Q4, we were at \$1,300, \$1,400 and now we are down to \$950, \$1,000. So, there is a significant fluctuation that can happen in VAM prices, and hence, we would not like to hazard a guess over next six months to one year.
- Amit Sinha:** No, what we have been, no you are absolutely right. I mean nobody can guess the prices, but what we understand from some of the pockets that China has started opening some of the closed construction chemical plants, so just on that particular line, is there any – I am sure you would have a much better understanding of the entire demand/supply?
- Apurva Parekh:** You think Chinese construction companies will consume VAM or what are you hinting at, I do not know.
- Amit Sinha:** What I am hinting is the supply situation is getting better.
- Apurva Parekh:** Look, VAM is a different product and no, VAM is not made by those companies. So that has no impact on VAM prices. VAM is made by other companies and they are not Chinese



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construction companies. So, what I am trying to say is that VAM is made by a few manufacturers in the world, two, three in Asia and rest in USA and Europe and nothing in China scenario has changed anything in that. First of all, it is linked to petrochemicals and that means oil prices and its demand and supply scenario.

**Apurva Parekh:** Thanks a lot for the answer Sir. Thank you.

**Moderator:** Thank you. We have the next question from the line of Vibhuti Jain from Quest Investment. Please go ahead.

**Vibhuti Jain:** Yes Sir. Thank you for the opportunity. If you could talk about ICA Pidilite and CIPY. In ICA, you mentioned that you procured some technical know-how and brand from the holding products. So, what are those products and what is the outlook for those products. Similarly, for CIPY and one more for the wood-based joinery adhesives, what is the performance currently and what is the outlook do you see for those products? Thank you.

**Apurva Parekh:** So, ICA Pidilite is a 50-50 joint venture between Pidilite and ICA, which is a leading premium wood finishes company in Italy and that joint venture has been in existence now for a couple of years. We have setup a new manufacturing plant for this in Jambusar in Gujarat, which will improve the supply chain. The trademark was that Pidilite also had a trademark called Wudfin, which was a brand owned by Pidilite in wood finishes. That trademark was sold to the JV so that all wood finishes business can be housed under the JV, which is ICA Pidilite. So that is the trademark called Wudfin, which was sold from Pidilite India standalone to our joint venture ICA Pidilite. Overall, we feel good about this category. We have now excellent product portfolio. We have a manufacturing plant in India. So, we believe that this business has good prospect. CIPY was a leading flooring company in India, all types of flooring, epoxy, polyurethane and other types of flooring which are used in various application in industries, healthcare, food, medical industry. So that is the flooring company that we have acquired. That company had good performance last year. Last year was the first full year with Pidilite and we believe that this is a category, which is likely to see good growth in coming years.

The last question on the joinery business, we do not separately give the figures of our sales in the joinery industry or our adhesive for the joinery industry, but we have a full portfolio of products in this. Pidilite had a good range of products, and now we have tied up with this



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company called Jowat from Germany, which is a leader in this space. So, we now have a complete portfolio for this segment and we are strong in that segment. This segment is growing well, and we are poised to benefit from that given that we have good distribution and reach as well as a good product portfolio now.

- Vibhuti Jain:** Okay. Thank you. That is, it from my side.
- Moderator:** Thank you. We have the next question from the line of Kuldeep Gangwar from ASK Investment Manager. Please go ahead.
- Kuldeep Gangwar:** Just one question, what had been the advertisement spending in this quarter and the year, if you can please share?
- P. Ganesh:** Yes, for the quarter, the spend was 4.1% of revenue and for the full year, it translates to 3.6%.
- Kuldeep Gangwar:** Sure. Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Vishal Punmiya from Motilal Oswal Securities. Please go ahead.
- Vishal Punmiya:** Hi, team. Just two bookkeeping questions. One is, what would be the capex for FY2020 and the tax rate?
- P. Ganesh:** Yes, so the capex is typically in the range of 2% to 3% of revenue and while we are getting into some additional capacity, you may have it at the higher end of this range and that other times towards the lower end of this range, but typically this would be the range for capex from a near term point of view. As far as tax rates are concerned, we should be in the 32% to 33% range because the couple of units which had tax exemption have also gone out of this bracket during this year and current year as well as last year the effective tax rate was lower because of a write back of excess provisions of earlier years, so on an ongoing basis we should be in a 32% to 33% effective tax rate.
- Vishal Punmiya:** Okay. Thanks.



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- Moderator:** Thank you. We have the next question from the line of Dhiraj Mistry from Emkay Global. Please go ahead.
- Dhiraj Mistry:** Yes. Thanks for taking my question. My question is related to employee expense. What is the reason, if I see from a second-half perspective, employee cost has gone up by 22%?
- P. Ganesh:** Yes, so as far as employee costs are concerned, we have had a couple of factors like ESOPs, which were given during the close of the year, which is not there in the base, so that is the one of the factors which has come in beyond the normal increments as well as our investment taking on additional resources from a future growth perspective and retiral benefits, actuarial valuation has also had an impact in terms of higher provisioning because of actuarial valuations. So, these are a couple of events which have actually increased the staff cost growth beyond the normal.
- Dhiraj Mistry:** Okay, can you quantify those amount, ESOP amount and is it likely to continue next year also?
- P. Ganesh:** So, ESOPs, again what has been given in this year, it would start coming into the base, but then going forward, depending on any change in scheme, etc., you could have an incremental amount coming in because we have an ongoing ESOP program where annually ESOPs would be given to a certain set of employees, which would then vest say, over a period of time. So, this is something which in a sense becomes part of the variable remuneration and from an employee retention point of view.
- Apurva Parekh:** The last year ESOP expense was about Rs.10 Crores, right?
- P. Ganesh:** Yes, for the full year.
- Apurva Parekh:** For the full year also, last year, while it is a little higher, it rises because of increase in variable pay. As a part of our compensation strategy, we have increased the variable pay to more levels of management in the company. Again, for full year, the total variable pay expense is about Rs.31 Crores, so while variable pay and ESOPs is not a very large sum in terms of the overall staff cost, some of these are sort of new things that have come in and hence had a bigger impact in second half of the year.



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- Dhiraj Mistry:** Okay and it is likely to continue going forward also?
- Apurva Parekh:** Yes, the same, the compensation strategy would be similar, where we will have a greater number of people covered under the variable pay in ESOP.
- Dhiraj Mistry:** Okay and second question related to other expense that has been flat this quarter, so I am assuming that A&P spend has gone up on a Y-o-Y basis, so what is the reason being, which cost item has gone down in this quarter?
- P. Ganesh:** So, if you look at other expenses, this has got a basket of a large number of items, whether it is clearing and forwarding costs, whether it is power and fuel, whether it is rent, so on and so forth, it is a combination of multiple items.
- Dhiraj Mistry:** Okay, that is it from my side. Thank you.
- Moderator:** Thank you. As there are no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead.
- P. Ganesh:** I would like to thank everyone for coming on the call. Thank you.
- Moderator:** Thank you, gentlemen. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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(This document has been edited to improve readability)