"Pidilite Industries Earnings Conference Call"

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MODERATORS: MR. J. RADHAKRISHNAN

MR. SANDEEP BATRA, DIRECTOR FINANCE, PIDILITE INDUSTRIES.

Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Q2 FY12 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, for the duration of this conference all participants' line will in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note, that this conference is being recorded.

At this time, I would like to hand the conference over to Mr. J. Radhakrishnan. Thank you and over to you, sir.

J. Radhakrishnan: Thanks Bineeta. Good afternoon ladies and gentlemen. On behalf of IIFL Institutional Equities, I would like to welcome you all for second quarter FY12 earnings call of Pidilite Industries. From the management, we have with us Mr. Sandeep Batra, Director Finance of Pidilite Industries. I would now like to handover the floor to Mr. Batra for his opening remarks. Over to you, sir.

Sandeep Batra: Thank you Mr. Radhakrishnan, and good afternoon to all the ladies and gentlemen on the call. I thank you for your interest in Pidilite, and for sparing time for this call. Let me start by giving you an overview of the performance for the quarter, after which I would be happy to take questions.

Net sales for Pidilite Industries on a standalone basis grew by 20.6% over the same period last year. Growth in the branded consumer and bazaar products was at 23% over last year, whereas the industrial products category grew by 17.6% in the quarter. Raw material prices on an average were around 24% higher than the same period last year. Part of this impact was offset by price increases that we would have taken either at the end of the first quarter or towards the beginning of second quarter as well as cost saving initiatives undertaken internally.

However, the cumulative benefit from the price increase as well as the cost saving initiatives has not been enough to offset the increase in input cost, and therefore material cost measured as percentage of sale has gone up by around 413 basis points over the same period last year. And sequentially over the first quarter it is higher by 127 basis points. There has been inflationary pressure in other cost areas like power, fuel as well as wage inflation, and this together with the increase in material cost has resulted in growth in EBIT over last year by about 4.5%.

In addition, the currency held -- the Indian rupee has depreciated against the dollar fairly sharply in September, and that has resulted in foreign exchange loss of Rs.48.9 million in the quarter. The interest cost for the company has come down from 86.7 million last year to around 59.3 million because of repurchase of non-convertible debentures as well as repayment of some term loans in this period.

Consequently, profit before tax and before exceptional items grew by 2.8% over the same period last year. And as mentioned in the earlier quarter discussions, the tax rate for the company has gone up because of the completion of the first five-year tax holiday period by our fourth unit, and that has taken the effective tax rate to some 25%. The combined effect of the above has resulted in a profit after tax of 815.3 million as compared to 828.5 million in the same period last year.

During the quarter, we've had about 30 foreign currency convertible bonds aggregating to $3 million being converted into equity shares, which has resulted in the increase in the paid up capital by 11,64,626 shares with the face value of 1 rupee. Now quickly looking at the performance of our overseas subsidiaries, the performance pre-exceptional items is as follows; the topline would show a nominal growth of 5% however in terms of constant currency, sales have been flat as far as previous quarter is concerned.

The sales of our subsidiaries in U.S. was lower by about 17.5% in that quarter, largely because of market contraction in our student art material business, where largely because of the economic situation in North America, purchases from the school was much lower than what we would have anticipated. In addition, because of the overall economic uncertainty in several parts of the world off-take by some of our distributors of the automotive aftermarket products was lower than what we would have anticipated.

The business in Brazil, while up by about 8% in terms of topline witnessed some amount of margin compression because of input cost inflation as well as currency depreciation in that country, and material cost to sales in Brazil was 8 percentage points higher than the same period last year, and as a result, the EBITDA in the business in Brazil for the quarter was minus 11 million as compared to 15 million last year. However, the other subsidiaries mainly in Middle East, Africa and in South and Southeast Asia reported encouraging result with the EBITDA improving from minus 11 million last year to plus 7 million this year.

So that is all that I had to comment as far as the result for the quarter is concerned. I'm happy to take questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Kindly go ahead.

Abneesh Roy: Sir, thanks for the opportunity. My question is how much price hike we have taken in the different sub-segments, and do we need to take further price hike in Q3 or would we like to see how the volume pans out and then take a price hike maybe in Q4. So wanted to get a sense on that also?

Sandeep Batra: I would have -- I've always you know, struggled to give any specific answer to what level of price increase we have taken across our segments. But certainly, if you were to look at what comparing it to the same period last year what would be the price increase at embedded in the company, certainly it would be a fairly significant amount. So it would be -- you know, very high single-digit would be the impact of the price increase that is there in the result for the quarter. It would vary across sectors in some of the industrial products segments; the price increase impact would be higher and of course within each segment across categories it would vary.

So I mean, currently we are not looking at any across-the-board increases in price. We are certainly looking at how volume growth plays out in the third quarter before we take any call on any specific price increase. In addition to volume growth in the third quarter, we are also looking at how the commodity cost scenario play out and in particular, how the rupee behaves versus the dollar because these are all factors which have significant impact on the profitability of the company.

Abneesh Roy: Sir, post festive season ending in October, how has demand changed in the month of November? Some insight on that, are you getting lot of worrying signals or is it business as usual in November?

Sandeep Batra: Very, very premature to give any comment on October as well as November because given the kind of business model that we have, it's not easy to pick up any such signal just by looking at 30, 40 days of results. So I think it would be premature to give any comment on that at this stage.

Abneesh Roy: Sir, regarding competition what we are seeing is, some of the paint companies have said that they are going into construction chemicals, sealants and all that. So, where do you see the competitive intensity? Has that increased, or will that increase in the next 2 or 3 quarters because of the entry of these kinds of players?

Sandeep Batra: We've also read all these media reports about several companies who are currently in the paint business talking about construction chemicals. So that is not something that we can control. Our strategy on construction chemicals remains clear. We've identified the set of products, a set of markets that we are focusing on and that focus is regardless of what competitive activity happens.

Abneesh Roy: And sir finally tax rate, you said, it has come up because of the 5 year period ending. Some of the other companies are putting up fresh capacity in these kinds of areas, what are we doing regarding the reduction in the tax rate, do and bazaar's tax rate reducing from the current level?

Sandeep Batra: I mean I don't think tax rate will reduce from the current level because we have not put up any further capacity in any zone or any area which have a tax benefit. So, our tax rate certainly if we do not make any further investments will increase as other units complete their 5 year tax holiday period. And so far as what we are doing well whenever we would have a need to set up fresh capital, fresh capacity, you would look at what is the total, least total cost delivered model other than only a model which gives tax benefits. So the decision will be very holistic rather than only driven by a tax parameter.

Abneesh Roy: Sir, regarding pricing on follow up question was, you just said that in the industrial you have taken a higher price increase, so what's the reason for that? Is it because of higher raw material pressure there, because normally in industrials pricing part is a bit lower?

Sandeep Batra: It is higher. It would be relatively higher because the raw material cost component is higher. So to offset the cost increase first up, you will need to take a higher cost increase percentage - higher price increase percentage.

Abneesh Roy: Okay sir, thanks, I will come back if I've more. All the best.

Moderator: Thank you. The next question is from the line of Prashant Poddar from Invesco. Go ahead please.

Prashant Poddar: Good afternoon sir, thank you very much for taking the question. Your second quarter volumes, if you can share that sir roughly?

Sandeep Batra: Very difficult because you know we don't have one product that we sell, it's a basket of….

Prashant Poddar: Volume growth, vacant volume growth type.

Sandeep Batra: All I can help you understand is that of the 21% odd topline growth as I said the impact of price would be in the high single digits so the balance would have come from volume or mix.

Prashant Poddar: Okay. The second question is on the volume growth also around double digit kind of or maybe high single digit kind of volume growth including the categories which have matured. It seems to suggest that the activity levels are quite reasonable in this quarter compared to let's say some other companies. Do you think that could slow down going forward given that the economy is slowing down?

Sandeep Batra: I mean again very difficult to link overall economy with the performance of our products sovereign. Certainly some of the more matured categories have a direct linkage to what happens in the economy in India and in the world. So certainly if you are asking whether growth in exports will slow down, as we see export growth from India slowing down because the overall economic situation in the world looks a bit uncertain, certainly we would also have some impact of that on our exports.

Some of the direct industrial products that we have which would directly be linked to the growth in the end use industry yes, a footwear exports from India slowdown, our adhesives sales to the footwear category also will slowdown. But then there is a fair share of our product portfolio which is largely around creating new markets, creating new users on which the impact of the economy may not be so direct. So it will be a bit of mixed bag for us. Part of our product portfolio which is matured and get us to established industries would get impacted. Part of our product portfolio which is around new products, new applications may not get so much impacted.

Prashant Poddar: Sir, the construction chemicals comment that you made that – other companies are also planning to -- paints companies are planning to enter the segment. Just wanted to understand, of the overall market, including the unorganized and smaller brands, what would be your share in the construction chemical segment?

Sandeep Batra: If you look at construction chemicals, as far as the retail end of the construction chemicals is concerned, which is the category that we are seeking to build, I think we would have slowly reasonable market position because that's the category that we are seeking to build through our products, expanding distribution, getting newer application, so difficult to give a specific market share number, but that is the area that we are investing behind where we are putting focus on. So, there we would certainly have a reasonable market position.

Prashant Poddar: Okay. last question on margins going forward, have you taken price increases blended kind of off late and how should that help out gross margin going forward including bazzar?

Sandeep Batra: I think we have, I mean I would say, most of the price increases would have already been taken somewhere towards the beginning of the second quarter. There maybe a few products where there could be some more pricing but by and large I would say, the pricing action would have been taken in the early part of the second quarter. What certainly will impact margins going forward is the raw material scenario as to how do raw material prices play out, how does currency impact play out, those would have a bearing on our margins. And if we do see that our margins are not improving because of costs not coming down or currency remaining adverse then again we will review whether pricing action needs to be taken.

Prashant Poddar: Okay. But the end results some kind of improvement from levels over the next two quarters?

Sandeep Batra: It is difficult to say what end results but all, we do see some of the commodity prices having softened. So, there must – the only area where we don't really have any control and I guess nobody has how the currency will be. So, if the currency also correct, and positively, it corrects positively we should see some monetary check on the margins.

Prashant Poddar: Okay, thank you very much sir

Moderator: Thank you. The next question is from the line of Paresh Jain from Max New York Life. Please go ahead.

Paresh Jain: Yes, hello Mr. Batra**.**

Sandeep Batra: Yes, Paresh how are you?

Paresh Jain: Good, good sir. Just a couple of question sir, what is the reason for the gross margin declined on Q-O-Q basis?

Sandeep Batra: Reason for the decline would be that, whatever input costs increases have happened that has not got fully passed on by way of price increases. Part of the reason for the decline could be – while – I mean I think I would have shared that, when we look at our pricing, we look at our more sustainable input cost regime. So that sustainable input cost level you may not have reached in the second quarter and that is why margins would have got, would have declined over the first quarter.

Paresh Jain: Okay. Because I think at the end of the last quarter we had taken some price increases benefits of which was supposed flow in 2Q. So, is that hasn't happened or…

Sandeep Batra: You know the price increase benefits are coming. I think all the pricing action that we had considered has got implemented, if possible that a few of them may have happened in July. So few days benefit may not have come but by and large that action is complete. I think what has happened is that the pace at which the raw material cost should have fallen, has not fully got reflected in our results. Coupled with that, the currency has adversely reacted in September, so that also had an impact.

Paresh Jain: So, what is the currency impact in our cogs or I mean is there any currency related element also that we have included in a cost of good sold only?

Sandeep Batra: It would have, I mean to the extent that – see to the extent that we had opened dollar positions we would have shown that lying separately we had the exchanged gain loss, to the extent that material has come as the higher rate and has been you know, paid at the higher rates that would have got embedded in cost of goods sold.

Paresh Jain: What is the quantum?

Sandeep Batra: It's difficult to quantify that number, but you know, we can always workout. We are a net importer of currency.

Paresh Jain: Okay.

Sandeep Batra: So, you know, net – I think the balance sheet would have more accurate numbers, but if I'm able to recall it would be about – our imports are higher than our exports.

Paresh Jain: Right.

Sandeep Batra: And therefore if the currency weakens, there would be an adverse impact on the road.

Paresh Jain: Okay. So, under current scenario 3Q gross margins would be even lower then?

Sandeep Batra: I cannot hazard any guess on that one.

Paresh Jain: Okay. No, based on – I mean, since, I mean…

Sandeep Batra: Yes, as a company we do not make any forward looking….

Paresh Jain: Okay, okay.

Sandeep Batra: I will not comment on third quarter.

Paresh Jain: And, is there any tax rate guidance that you are giving?

Sandeep Batra: Tax rate is going to be similar as what it was in the first half for the remaining part of the year.

Paresh Jain: Okay, so close to 26 or – and…?

Sandeep Batra: 26 would appear – this quarter will appear to be 26 because you don't get tax offset on the exchange loss.

Paresh Jain: Okay.

Sandeep Batra: Just for that the tax rate will above 24 odd percent.

Paresh Jain: Okay. And that is what is going to remain in this year?

Sandeep Batra: For this year.

Paresh Jain: Okay. And next year what is the kind of increase that we can build in?

Sandeep Batra: See one more unit will complete its tax holiday. So maybe 200 basis point it could go up.

Paresh Jain: Okay. Okay. And, any update on the elastomer project where are we in, what is the kind of CapEx that you have done now?

Sandeep Batra: Total CapEx as on that date, as on 30th of September is 340 crores.

Paresh Jain: Okay.

Sandeep Batra: At this meeting, the management team running the project did give an update on the PCI project and we have got an international consultant who is doing work for us on some of the aspects, on the project, more particularly a way forward in the projects and there is, you know, you know that the whole economic situation has been pretty volatile in the last seven to eight months, both on the demand side as well as around the pricing of – of the key inputs for that project, and then of course for that reason as well as to get a better sense, you know, of which way the project is going that we had appointed this consultant. So that exercises in a way a working process.

Paresh Jain: Okay.

Sandeep Batra: And once study gets completed the board will take another look and will review the project at a later date once the findings and the recommendations of this expert and consultant is provided. And because of this review it is possible that you know the project configuration as well as timeline may undergo some change.

Paresh Jain: Okay. And if there any likely cost over and also expected?

Sandeep Batra: I would not be able to comment on this at this stage because the whole exercise that this consultant is doing involves looking at the entire aspects of the project. So, as an entrant you know, the project configuration as well as timelines may undergo some amount of change once this consultant completes its exercise.

Paresh Jain: Okay. And what is the kind of CapEx, that overall CapEx that we are planning for FY12 then?

Sandeep Batra: For FY12, again you know, it's difficult to give you a specific number, but, it would be in the range for sustain, it would be in 100 crore and 125 crore.

Paresh Jain: That is sustaining CapEx?

Sandeep Batra: Other than PCR

Moderator: Thank you. The next question is from the line of Rahul from Voyager Capital. Please go ahead.

Rahul B: Hello, Sandeep.

Sandeep Batra: Yes, Rahul. How are you, good afternoon?

Rahul B: Very well, sir. Two things, one, you know, in terms of VAM prices, I mean, I remember last time in the call you had mentioned that there were some signs of them coming off.

Sandeep Batra: Yes.

Rahul B: So, since then in the last couple of months has the trend changed again, have decided going up again or what's the view over there?

Sandeep Batra: It has not – prices have not gone up of them, they would be now – I think current spot price would be, say somewhere around $1100 range, so that delivery will be, maybe 2 to 3 months hence, but, that would be the price, 1100.

Rahul B: So, that's still down because I remember I think, early in the year it was close to $1400.

Sandeep Batra: Yes, it has – spot has been reached that kind of level 1400, so to that extent, you know, maybe a 20% correction has happened in VAM. But, you know, currency has eaten away about half of it.

Rahul B: Okay. And then, secondly in terms of currency you mentioned that, on the P&L we are a net importer. So, approximately what would that percentage be, say around 10% of sales?

Sandeep Batra: Roughly yes of that order.

Rahul B: Around 10%, Yes?

Sandeep Batra: Yes, roughly.

Rahul B: And, you know, lastly on demand it seems that you don't sound as confident as you were 3 months back on the short-term, is that the case, is that right or you know, still we have been talking more.

Sandeep Batra: Yes, I didn't say, no, no, I would not, you know, read – I would not have any dissidence as far as demand is concern, suddenly the signs are, you know, what we see around us is much more, I would say pessimistic than what it was earlier. So, to that extent, as I said, you know, some of the sectors which directly impact our top-line, yes those sectors under perform, we will have – we will face the consequences of that pessimism. So, and that -- those sectors certainly are, you know, more downbeat than what they would have been 3 months earlier, to that extent certainly.

Moderator: Thank you. The next question is from the line of Vaishali Jajoo from Aegon Religare Life Insurance. Please go ahead.

Vaishali Jajoo: Good afternoon everyone. This is a follow up on again elastomer, I mean, as you said the consultant is appointed to review the project again. So, are we going to put -- because I think total investment was supposed to be 450 crore and we have invested as of now 340 crore, so there will be a further investment till the time review comes or it will come – it will be, I mean later on when the review is done?

Sandeep Batra: Total investment, I heard you say was going to be about 450, that is not correct, total investment would have been around 575 crores is what we have maintained. That investment, yes, till the time this exercised is completed, this study is completed the investments growing forward would be certainly minimal because we would like to get the report of the – the study completed before we commit the next round of CapEx.

Vaishali Jajoo: And the timeline, then it will be postponed or how it will be, I mean, whatever….?

Sandeep Batra: That I think we will have to wait for that report to come out, it will be very premature of me to hazard any guess on what implication that study will have on the configuration and timeline, as I maintained that because of this review it is possible that the project configurations and timelines may change.

Vaishali Jajoo: When this review is expected to be completed?

Sandeep Batra: Again very difficult to give you any specific timeframe at this stage, as soon as I mean, the moment we have an idea about the specific timeframe certainly we will reach out to some of the, some of you and you know, find the way of communicating it, but at this stage I don't have a timeline to share with you.

Vaishali Jajoo: Second is on your import and export, whatever in the foreign currency transaction, do we have any specific hedging for….

Sandeep Batra: We do take a review for the net exposures, we do review the currency exposures that we have and whatever is the net position we would be taking up over for that.

Vaishali Jajoo: It is a net of export or import, or it's…

Sandeep Batra: Net of export and import.

Vaishali Jajoo: Okay. Thank you.

Moderator: Thank you. The next question is from Kaushal Shah from Dhanki Securities, go ahead.

Kaushal Shah: Yes, thank you Sir. The, you know, question was relating on the demand front, what you've seen in the second quarter is, you know, the demand has remained fairly very strong and you indicated about a decent volume growth also, would it be possible for you to give some kind of – provide some more color on what is the demand growth that you foresee in a coming couple of quarters?

Sandeep Batra: No, we as a company do not give any, you know, outlook or guidance as far as future is concerned, so I don't think I will be able to answer this question.

Kaushal Shah: And the second question was on the capital expenditure for the next year, you gave an indication about, you know the maintenance CapEx for the current year. But, 12, 13, which is the next year financial 12, 13, what would be the CapEx excluding the elastomer project?

Sandeep Batra: I cannot say any specific numbers because we don't have a – I don't have a specific, you know, project-by-project analysis ready to share with you. But, it would be in that order; I don't think it will be materially different from that because we have not, you know, taken any decision to set up any large plants.

Moderator: Thank you. The next question is from Rakshit Ranjan from Ambit Capital. Please go ahead.

Rakshit Ranjan: Hi, good afternoon sir.

Sandeep Batra: Good afternoon.

Rakshit Ranjan: My question is more regarding your need into long-term strategy for expansion of your product pipeline. Is M&A be preferred rule for expansion of your product pipeline you think or otherwise?

Sandeep Batra: Well, I will have some guidance referring, M&A is something that you know, you cannot specifically plan for our budget M&A. So, as far as we are concerned all options are open and available to us for expanding pipeline, whatever make sense and whatever is economical.

Rakshit Ranjan: Okay. And also just related to that given the performance that you've, the performance experience of your foreign subsidiaries, is there a more, is there a lot more inclination towards domestic expansion, domestic M&A rather than foreign on that front?

Sandeep Batra: No, I don't think we have any such stated reference that we will not do any M&A outside. Certainly there are certain geographies where we do see, we delight having relatively more advantage. So, you know, in geographies like Southeast Asia, Africa, Middle East, we do see you know, the market characteristics as those where we can you know, proceed effectively, not certainly in developed markets like Europe or North America. So these areas would be area where you would like to grow our business need organically or through inorganic option

Rakshit Ranjan: Okay, okay. All right. Thank you.

Moderator: Thank you. The next question is from Preeti Trivedi from Vantage Securities. Please go ahead.

Preeti Trivedi: Yes. Thanks for taking my questions. I just wanted to understand that how did the VAM price movement there are in the quarter as well as for first half of FY11? Hello?

Sandeep Batra: VAM prices, if you look at H1 this year or H1 last year would be up by nearly 50% on an average, 48% to 50% on an average for the quarter, combination of both absolute dollar prices as well as currency movement. But, if you look at price trend saying August, September and thereafter, it has come off the kind of highs that the commodity had touched.

Preeti Trivedi: Okay. Is this fair to assume that the percentage level hike to 10% come off sequentially?

Sandeep Batra: Of that order, yes, in dollar terms as I said you know, it had touched a high of some $1400 and I think in June early July, and now it is at around 1100 kind of level.

Preeti Trivedi: Okay sir. And the second question is, I just wanted to understand also that is any direct link bids in the crude price movement versus land prices?

Sandeep Batra: Well, there is no immediate direct link, I am sure there is a direct link because it is a crude derivative in that sense, it is not, you know it is not an agricultural product. But, there is no immediate direct link.

Preeti Trivedi: Okay. Is there any export, can you specify the export number in consol revenue for the quarter?

Sandeep Batra: Export revenue in the consol revenue would be similar to what it is every, I mean, exports largely happens on the parent company which is the standalone increase, and meanwhile exports are around 10% of turnover. So they would be in the range in this quarter, I don't have the specific number to share with you but they are not significantly different in the quarter.

Preeti Trivedi: Okay sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Motilal Oswal Securities. Please go ahead.

Harit Kapoor: Sir just a couple of things. Firstly on your segmental numbers, you know, consumer and bazaar is in a 23% growth. I just wanted to understand sir what would be the pricing element in this because we took our Fevicol prices at the end of last quarter were 5% to 6%, but on a year-on-year basis what would have been the pricing element in this growth?

Sandeep Batra: It would be difficult to give you a very specific number, but it would be out in quarter-on-quarter maybe around I guess 7%, 8%

Harit Kapoor: Okay. So just…

Sandeep Batra: 7% to 9% of the range of your order book.

Harit Kapoor: Okay. So this quarter versus Q2 last year we were 7% to 9%.

Sandeep Batra: Yes, yes.

Harit Kapoor: Okay. And the same for the industrials, industrials about 17.6% revenue growth for the full, I mean, for the quarters?

Sandeep Batra: Yes, it would be about 8% to 10% kind of rate.

Harit Kapoor: Okay. And secondly, if you could also help me with the international EBITDA number I mean, for all geographies combined?

Sandeep Batra: You know, EBITDA three exceptional items, there are some exceptional items not realized number in this quarter but maybe in the H1 it is there. Our EBITDA this year is 5 million compared to 22 million last year. So all subsidiaries put together

Harit Kapoor: So all subsidiaries put together. Okay, okay. And, so just wanted to understand I mean, this is, now we spoke about last quarter if I remember that North America sales I mean, EBIT numbers are much better and now we are seeing those significant impact. So just wanted to understand what happened there, is it largely, only because of the top line contraction?

Sandeep Batra: Largely because of top line contraction, see the student at material business that we have has a fair amount of seasonality and a significant amount of its sales happens in this July to September period because new sessions in this school start around that time. And off take in this quarter for the student art material business has been significantly impacted because there, unlike in countries like India where it is the student who goes and buys his stationary or art material. In the US it is largely provided by the school themselves. And several of the school, and in fact most of the schools being state funded have cut down on this material.

Harit Kapoor: Fair enough, fair enough. And lastly sir on, I mean, in last quarter we spoke about the new launches in the consumer and bizarre also, I just wanted to know what, how have these been taken I mean, fevicol, marine and all the other, even the industrial, even the waterproofing products, if you could just give us a sense how these new launches that you have put in the market in the last, first six months, how is it been doing?

Sandeep Batra: I think there I guess performance I would say would have been inline with our expectation. So they have performed well, they continue to gain traction and you know, get acceptance with the trade as well as with the consumers. So, and suddenly we will be looking to do whatever action we can to grow these categories and invest further behind them in the months to come.

Harit Kapoor: Okay. And lastly, suppose the 5% to 6% price hike in Fevicol, have we taken up prices again further in that?

Sandeep Batra: No, no, no.

Harit Kapoor: Okay. Okay sir that's it from me. Thank you and all the best.

Sandeep Batra: Thank you.

Moderator: Thank you. The next question is from the line of Siddharth from SIHL. Go ahead please.

Siddharth Rajpurohit: Good afternoon Mr. Batra

Sandeep Batra: Good afternoon.

Siddharth Rajpurohit: Can you just tell me what was the volume de-growth quarter-on-quarter?

Sandeep Batra: Volume de-growth, we did not have any volume de-growth quarter-on-quarter.

Siddharth Rajpurohit: Do we have taken our price hikes in Q2, Q1. So, if these net sales is down on consolidated basis, if you take the net sales on consolidated basis, the net sales and other operating income is down by 7.5%?

Sandeep Batra: Compared to?

Siddharth Rajpurohit: Q-on-Q, Q1 versus Q2.

Sandeep Batra: Q1.

Siddharth Rajpurohit: Yes, comparing year-on-year and comparing Q-on-Q?

Sandeep Batra: You are comparing Q2 of the current fiscal with Q1 of the current fiscal?

Siddharth Rajpurohit: Yes.

Sandeep Batra: And you are sayings current fiscal sales are lower than first quarter fiscal, yes, certainly they are lower because that's the way our business pattern in the first quarter is always strongest quarter.

Siddharth Rajpurohit: Yes I understand sir. So I just wanted what was the volume de-growth because if we see the packaging material cost that has gone up on absolute term, it has gone up from 85 crores to 87 crores . So I want to understand what is the…?

Sandeep Batra: I thought, I don't, we don't workout a numbers like that, I will not be able to answer your question of what has been the volume decline. You know, overall sales are lower. So certainly volumes in this quarter will be lower than volumes of the first quarter.

Siddharth Rajpurohit: Yes, I definitely understand. So I think there is a substantial jump in your packaging material cost?

Sandeep Batra: Well, it's I mean very difficult because it is all a function of mix, packaging material is largely used in our consumer and bizarre products, the incidents of packaging material in the industrial products is lower. So, difficult to give you specific answer. I am sorry.

Siddharth Rajpurohit: Okay. And why has management means that the project is near to completion I mean a year or so, why has management now I mean, decided for a consultant and review of the project, there is specific reason or industrial or entrepreneurial basis?

Sandeep Batra: Sorry?

Siddharth Rajpurohit: Why is the management taking a decision for the review of the project, is there any large change on the overall industry basis?

Sandeep Batra: Well, I don't think there is any large change, but we know that you know the last seven to eight months have seen significant amount of economic volatility, most, as I said, on the demand side as well as on the supply side, meaning, the outlook for the finished products as well as the pricing of the input costs is going to making polyethylene. They have seen significant amount of volatility and as a matter of prudence, as a matter of making sure that the investments are shareholder value generating, we will engage the consultant, we look at all aspects of the project that exercise is underway.

And the Board at a later point will consider the final report and the recommendations of the consultant and basically that a decision will be taken. But as I mentioned to you, I mean, I cannot share anymore specifics on this at this current stage, but if I to say that this study that will be done, will have implications on the configuration as well as the timelines of the project. So I think we'll have to wait for this exercise to be completed before we have greater clarity on this.

Siddharth Rajpurohit: Okay. And then our packaging material is it – will there largely be polyethylene.

Sandeep Batra: It will be all, I am not a chemical person, will be all kinds of, you know whatever is typically used scientific kind of company it could be similar.

Siddharth Rajpurohit: Okay. Thank you sir. Thank you.

Sandeep Batra: Okay.

Moderator: Thank you. The next question is from Aniruddha Joshi from Anand Rathi. Please go ahead.

Aniruddha Joshi: Hello sir, Aniruddha from Anand Rathi.

Sandeep Batra: How are you Aniruddha?

Aniruddha Joshi: Sir just wanted to check, we face very little competitive pressure across most of the consumer and mother products. So despite that we are not taking any aggressive price hikes, so any reason, because most of the consumer products we have seen even if they take higher pricings more than 10%, volumes are not dropping, so…

Sandeep Batra: As I have always maintained, our pricing philosophy has not been that just increase the price and we will see what happens to demand. Our pricing has largely factored in what is the long-term sustainable cost regime and factored into that, and that is how we would have decided the pricing. Certainly the assessment that we would have had on input costs softening and becoming inline with what you would have factored, it has not happened in that – in the quarter for a variety of reasons, part of it could be that you know, part of it is the currency, part of it is the speed in which the costs are corrected, part of it is linked with inventory. So I think we are – there once we get greater clarity on all these fronts, we'll again have a look at what requires to be done to protect our margins.

Aniruddha Joshi: Okay. And what is the price hikes you would like to – you would be taking if you have to go back to margins which were seen maybe let's say FY10, FY11?

Sandeep Batra: That would be very obvious. You know if you see our margin compression quarter-on-quarter is about 400 basis points. So that is simple arithmetic if you take a price increase of that magnitude it will go back toward the margins were last year on an aggregated basis.

Aniruddha Joshi: Okay. And the price hikes which we have initiated in July, whether they are winning adhesives portfolio or construction chemical portfolio?

Sandeep Batra: For all categories, adhesives, 10% chemical, art materials it would be across all products categories.

Moderator: Thank you. The next question is from Abneesh Roy from Edelweiss. Can we go ahead?

Abneesh Roy: Sir, some follow-up questions, how has the lower priced unit fee Rs.5, Rs.10. Rs.20 pack done compared to the overall sales last year?

Sandeep Batra: I don't have specific answers to that – to this question. We don't track sales of these price point unit separately. I mean, I am sure those concerned division does, but I don't track the summary.

Abneesh Roy: And sir, in terms of rural versus urban I am not asking for the split, but are we seeing our sales growth trend changing in these regions in anyway?

Sandeep Batra: Again, I don't have data to answer to this question.

Abneesh Roy: But how much do we get from rural areas ballpark number for the consumption consumer bazaar?

Sandeep Batra: For the consumer bazaar -- the rural in our case is bit difficult to track, because some of our existing distributors which get serviced by the main sales team, they in turn may be selling into rural areas. So what actually get sold into rural areas, I would not know, but what we sell via our direct sales team, which looks at towns below 50,000 kind of population for us would be on an annualized basis may be 150 crores, 180 crores on a consumer and bazaar portfolio of about may be 1,700 crores, 1,800 crores..

Abneesh Roy: Okay.

Sandeep Batra: But that is direct. So you know there will be several others of our existing distributors who penetrate into smaller towns and you know as I said our definition is some 50,000 towns.

Abneesh Roy: Right. Sir, if you see paint companies in Q2, said that because of high monsoon they were impacted.

Sandeep Batra: Yes.

Abneesh Roy: In some of our products also we would be facing these kinds of issues, could you share which are those segments and what kind of impact you felt because of the heavy rainfall? In fact you could be benefiting in some way…

Sandeep Batra: I don't think we have any products which are so directly linked to heavy or not so heavy rainfall. So I don't think that would be a very material impact for us

Abneesh Roy: Sir, in terms of ad spent, how has Q2 behaved versus last year?

Sandeep Batra: Q2 for us would be lower than last year because the ads you know much higher investment in the first quarter, so Q2 has balanced out. It all–you know most our advisement is aligned with cricket. So most of the cricket this year was in the first quarter, this very last year there it was in the second quarter, so we balanced out.

Abneesh Roy: But for the full year you will maintain the earlier number there?

Sandeep Batra: It again depends on everything you know we will not again spend advertisement for the sake of it, say if property is right, if the opportunity is right, certainly we will not you know do anything which would not – which would be 100 – would be very short term.

Abneesh Roy: So you are not slowing down all your innovations, new product…?

Sandeep Batra: No, no, no.

Abneesh Roy: Sir, lastly on the international business U.S. remains an issue, so what's the plan there? You want to maybe downsize some of the operations, what's the plan for the U.S. and some of the other geographies in which there has been some issue, which keeps coming again and again?

Sandeep Batra: You know see, I think if you look at U.S. as an operation it has continued to done well. So last couple of years the U.S. business has performed much better, so from position where may be there were making cash losses, they are certainly cash positive. This quarter has been a bit of disappointment because of you know the decline in sales because of the school, the lower off take from the schools in the U.S. but other than that we don't see a long term concern there.

If there is a concern is on long-term liability then we would of course you know take steps to mitigate that. The only business which today I would say is doing below what our expectations are is in Brazil, where our topline is not inline what our expectations are and we are not able to pass on the cost increases. So that's the area that we are looking at in terms of putting you know whatever management expertise is there, management bandwidth there put on that business around.

Abneesh Roy: Is it because of the lower market share in Brazil, what's the issue?

Sandeep Batra: It's a combination of several things. You know, one is of course our market position not as strong as it is in India.

Abneesh Roy: Earlier supply issue was there, so what's…

Sandeep Batra: That is all now behind us, we have no supply related constraints there, but of course the constraint is the ability of us on ground in Brazil to react fast to either a competitive reaction or an input cost increase.

Abneesh Roy: Okay.

Sandeep Batra: That's where we really – we have – we will be found wanting and that's something that we are looking at in terms of our – of addressing by way of strengthening the management capability there.

Abneesh Roy: Again regarding U.S. school issue, is Q2 the peak quarter and so the this problem doesn't go away right, because if the slowdown is there in the U.S. and the authorities are cutting down on school procurement, it's a structural issue right?

Sandeep Batra: It could be a structure of one year when they have somebody to re-contain, we don't know. So we need to figure that out as to, is it a sign of the times to come or…

Abneesh Roy: What are they doing? Are they down-trading or it's a discretionary items, you can use the older one.

Sandeep Batra: May be it is older – it will be a combination, may be it is not buying, buying less, trying to make these things once go longer because you know -- the state governments, they are cutting back on their support for the schools.

Abneesh Roy: Correct. Okay sir, thanks and all the best.

Moderator: Thank you. The next question is from the line of Saurabh from SBI Mutual Fund. Please restrict your questions to two per participant. Thank you.

Saurabh P: Just couple of bookkeeping questions – I think I missed these figures. What's the Capex for this year? Both the split duty and maintenance in elastomer?

Sandeep Batra: See, total Capex that we would have spent so far would be…

Saurabh P: 42 crores.

Sandeep Batra: Bulk of it would be – I mean, PCR would have some amount of – you know, what do you call it – Forex-related losses getting capitalized. So there will be some amount of Capex on that and the maintenance Capex for the year would be of that order – you know, about 100 and 125 crores.

Saurabh P: Okay. And lastly, you were – this year was closely something to the tune of about 200 odd crores, right?

Sandeep Batra: Yes. It is not been on that magnitude. It is being much lower than that.

Saurabh P: So why is that being lower?

Sandeep Batra: I think – as I mentioned – you know, we've got because of all the volatility that we witness both in terms of the overall economic situation in the world as well as the pricing for Butadiene, which is the most important raw material. We engage key services of an international consultant to look at all aspects of the project and in that time, till that work is underway, whatever work known as initial, we would have – you know, curtailed.

Saurabh P: Most of this is likely to get deferred to FY13?

Sandeep Batra: I do again – very committed to giving the comment, but the exercise that we completed, the total Capex in the first half is about 73 odd crores – total, I think.

Saurabh P: Okay. The second number that I missed was the Brazil EBITDA number. You said this quarter it's about 11 million loss. What was it in the corresponding quarter? Q2FY11?

Sandeep Batra: Plus 15.

Saurabh P: Plus 15, Yes. Thank you so much Sandeep. All the best.

Moderator: Thank you. The next question is from the line of Amar from HDFC Mutual Fund. Kindly go ahead.

Amar K: Good afternoon sir. Thank you for giving opportunity. Sir, this is follow-up on the profitability of international operations. On the overall subsidiaries contribution to consol is more or less similar. So Brazil has gone down, US has gone down. Can you just give us a region-wise EBITDA in absolute and original margins, if you can give us?

Sandeep Batra: See if you look at – let me give you EBITDA number for the quarter without pre- exceptional items. US and North America is 8 million, okay? Against 18 million last year; there was a decline there…

Amar K: 8 million positive?

Sandeep Batra: Yes, positive. Plus 8 against plus 18 last year. Brazil is minus 11 versus plus 15 last year. Middle East and Africa is minus 7 versus minus 16 last year and South and Southeast Asia is plus 14 against plus 5 last year.

Amar K: Okay and in some of these regions such as South, what could be – I mean, average – sorry, in these regions, what could be the EBITDA margins, I mean?

Sandeep Batra: EBITDA margin will be very low because you know, most of them are – I mean, like particularly the operations, say in Bangladesh, they were in the growth phase. So if you look at South and Southeast Asia, I would say EBITDA will be around 12-13%.

Amar K: Alright, sir. Thank you very much and good luck for the **interim (0:59:37)** quarters.

Moderator: Thank you. The next question is from the line of Rohit Gajare from UTI PMS. Please go ahead.

Rohit Gajare: Hi sir, one market quick question. Sir earlier in the last quarter, you have guided that the elastomer project would be in by mid of FY13. So I think that thing would not stand at this evidently.

Sandeep Batra: Yes. That would be a fair conclusion.

Rohit Gajare: Okay and one thing from the Forex losses this quarter, on 45 crores on the consolidated level.

Sandeep Batra: No, not 45 crores.

Rohit Gajare: I'm sorry – 53 million on the consolidated level. Is essentially due to market level of FCCB or is it something else happening over there?

Sandeep Batra: Largely, it will be FCCBs.

Rohit Gajare: Largely FCCBs?

Sandeep Batra: Largely FCCBs.

Rohit Gajare: Sir and one another question. You mentioned based on the decision so far. May be we had it around higher – lower double digit, maybe 11-12% volume growth. I think in that quarter, we had around 16% volume growth. Is that correct?

Sandeep Batra: A lot more. It could not be that at that time.

Rohit Gajare: I mean, this is Q1 of FY12.

Sandeep Batra: I cannot recall the number for the first quarter because – you know, we don't compute these numbers specifically, but certainly the volume growth in this quarter would be lower than the volume growth in the first quarter, but specific – I would not have a number to share with you.

Rohit Gajare: That's okay. Is the management -- do you feel that you could have done better volume growth or do you feel that this is – we are okay with it? Do you feel? Have you outperformed our own expectations or do you think this is a bit of an underperformance?

Sandeep Batra: **(Indiscernible) (1:01:20)** – you know, as to whether we are outperformed or not. Certainly, you know – in every organization, there is an opportunity do better, but whether – you know, we would have met our expectations and all, I don't think I would be in the position to answer that question.

Rohit Gajare: Okay. Thank you very much.

Moderator: Thank you. The last question is from the line of Kaustav from PUG Securities. Please go ahead.

Kaustav K: My first question is basically again on the margins front. As I understand – I mean, VAM prices had come off in the -- towards the second quarter – I mean, of FY12. So basically the hit on the margins would largely be because of the currency fluctuation?

Sandeep Batra: No, it would be combination. See, VAM prices – you are right, had come down, but they wouldn't be – I don't think they would be lower than what it was in the first quarter. So they would have – you know, the pace of increase had certainly stopped and there was a decline in VAM prices, but weighted-average prices adjusted for inventory, adjusted for foreign exchange, would not have been lower than first quarter.

Kaustav K: But they would have been higher in YoY basis also.

Sandeep Batra: Certainly.

Kaustav K: Okay sir and one other question that I have on the interest cost. Although it has come down on the YoY basis, which was to be expected because of the repurchase of entities, on a sequential basis, it has gone up by almost 20%.

Sandeep Batra: Yes, it has.

Kaustav K: So have you ever taken on fresh borrowings in the quarter?

Sandeep Batra: Some borrowings, we have taken, but amount – one of the reasons why that interest cost also goes up on a quarter-on-quarter is that on our FCCBs, we also provide interest. Out of that interest gets capitalized, out of it gets adds to the P&L. That interest computation is linked to the rupee, dollars…

Kaustav K: So the foreign exchange comes into play there.

Sandeep Batra: That also comes into play, but I think it's shown on interest.

Kaustav K: Right, right. So sort of it would be fair to sort of assume that – you know, this will continue for this particular thing. And I mean, lastly on elastomers I mean, as in when the project meets the required approval, so where would we be sourcing the raw material from?

Sandeep Batra: I mean -- projects require approval, meaning -- whose approval it is?

Kaustav K: Approval in the sense, once your consultant gives a go-ahead…

Sandeep Batra: Once the board had configured the report of the consultant and again, the appropriate decision, regarding this available locally. So I think we would be sourcing or looking to source it locally.

Kaustav K: Locally? Okay. You will not be importing it?

Sandeep Batra: No, no.

Kaustav K: Alright. Thanks sir.

Moderator: Thank you. I would now like to hand the floor over to Mr. Mr. J. Radhakrishnan for closing comments.

J. Radhakrishnan: We thank the management for this call and all the participants. Have a good day.

Sandeep Batra: Okay. Thank you, thank you so much. Thank you everybody for your interest. Okay.

J. Radhakrishnan: Thank you.

Sandeep Batra: Thank you. Bye-bye.

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