25th June, 2020

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

The Secretary
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex,
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Mumbai - 400 051
Stock Code - PIDILITIND

Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 18th June, 2020.

Kindly take the same on your records.

Thanking You,

Yours faithfully,
For Pidilite Industries Limited

Puneet Bansal
Company Secretary

Encl: as above

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“Pidilite Industries Limited
Q4FY2020 Earnings Conference Call”

June 18, 2020

ANALYST:	**MR. ANAND SHAH – AXIS CAPITAL**
MANAGEMENT:	**MR. APURVA PAREKH - EXECUTIVE DIRECTOR – PIDILITE INDUSTRIES LIMITED** **MR. PRADIP MENON – CHIEF FINANCIAL OFFICER - PIDILITE INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q4 FY2020 Results conference call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Anand Shah of Axis Capital. Thank you and over to you Sir!

Anand Shah: Thank you Ayesha. Good evening everyone. On behalf of Axis Capital, I welcome you all to Pidilite Industries Q4 FY2020 earnings conference call. We have with us the senior management of the company represented by Mr. Apurva Parekh, Executive Director and Mr. Pradip Menon, Chief Financial Officer. With this I would like to hand over the call to the management for opening remarks. Thank you and over to you Sir!

Pradip Menon: Thank you Anand.

Good evening everybody.

"The quarter performance was significantly impacted by the lockdown on account of the pandemic as well as related disruptions in the supply chain. While top line growth remains subdued, earnings have improved substantially, primarily as a result of softer input costs. Covid-19 is a significant challenge and Pidilite remains committed to working with our partners to overcome this crisis. As normalcy returns slowly across various markets we remain cautious and focused on restoring volumes enabled by investments in brand building, growth categories, capabilities and sales and distribution".

I will begin with a summary of the financial performance for the quarter and year ended March 31, 2020 for the stand-alone business.

As a result of the nationwide lockdown declared in March 2020, the standalone net sales in the last ten days of the quarter, and of the year, were lower than the same period last year by around Rs. 150 Crores. This is equivalent to around 11% of Q4 net sales last year.

Lower sales in the last ten days of the quarter and the year resulted in Q4 standalone net sales growth reducing from around 9.6% as on March 21, 2020 to - 4.3% as on quarter end. Full year standalone net sales growth reduced from around 7.1% as on March 21, 2020 to 4.0% as on year end. The consequent impact on standalone EBITDA growth is estimated at a reduction of 29% for Q4, and 6% for full year.

The operations at all our factories, warehouses and branches have started in a phased manner during May and June with all requisite safety protocols being adhered to in a stringent manner. Most of the employees are working from home and necessary office connectivity is in place.

While April '20 sales ground to a halt due to closure of most markets, in May and June we have seen the country open for business gradually with Rural markets restarting quicker vis-à-vis Urban markets. We observe that markets in the South and East have opened gradually with North and West being slower to open up. Large cities continue to be constrained, especially those in West, North and Central India. We continue to see challenges around labour availability in our own units/ warehouses/ factories as well as at users/ customers. As normalcy returns slowly across various markets, we remain cautious and focused on restoring volumes enabled by investments in brand building, growth categories, capabilities and sales and distribution.

Moving Further, In case of standalone performance

- Net sales at Rs 1,308 Crores declined by 4% over the same quarter last year. Net sales for the year ended stood at Rs 6,290 Crores and grew by 4% over last year with sales volume and mix growth of 2%. This was driven by 2% growth in sales volume and mix of Consumer and Bazaar and 4% growth in sales volume and mix of Business to Business.
- Material cost as a % of net sales is lower by 471 basis points versus the same quarter last year and 192 basis points versus previous quarter. It is also lower by 399 basis points when compared to prior year. The consumption cost for Q4 2020 is around $845 as compared to Q4 2019 consumption cost of $1100.There have been benefits versus prior quarter in dollars, neutralized by adverse currency movements. Current spot price of our major raw material Vinyl Acetate Monomer, we call VAM is around 650$ to 700$ on account of low demand and stressed market conditions. We do not believe prices at these levels are sustainable.
- EBITDA before non-operating income stood at Rs.286 Crores and grew by 8% over the same quarter last year, on account of softening input costs. EBITDA for YTD March '20 stood at Rs 1,485 Crores and grew by 14% over last year.
- Profit before Tax and Exceptional Items (PBT) at Rs 262 Cr declined by 7% over the same quarter last year mainly due to lower income from investment in current year. PBT for the year ended stood at Rs 1,496 Cr and grew by 9% (excluding exceptional items+ in current year and income from inter-company transfer of intangible assets and dividend income from subsidiaries, in last year, grew by 13%) over last year.
- PAT at Rs 160 Cr declined by 34% (Excluding exceptional items + and previous year tax write back** growth of 3%) over the same quarter last year. For the year ended, PAT at Rs 1,102 Cr grew by 13%. Excluding exceptional items+ in current year and income from inter-company transfer of intangible assets and dividend income from subsidiaries and effect of tax thereon, in last year, grew by 23%. Effective tax rate

for the year has been reduced from 28.8% to 22.4% due to reduction in corporate tax rate

+ Exceptional item represents impairment loss on plant and machinery at Dahej Elastomer Project amounting to Rs. 33 Cr for current quarter and Rs. 55 Cr for current year and impairment in value of investments of a subsidiary amounting to Rs. 4 Cr for current quarter.

***Current tax for the same quarter last year includes Rs 53 crores being excess provision of earlier years written back.*

Consolidated Performance

The quarter and year end performance was significantly impacted on account of COVID pandemic in India as well as across the globe.

- Net sales at Rs 1,535 Cr declined by 6% over the same quarter last year.
- Material cost as a % to net sales is lower by 505 Bps over same quarter last year and 155 Bps vs previous quarter.
- EBITDA before non-operating income stood at Rs 303 Cr a growth of 9% over the same quarter last year.
- Profit after tax (PAT) at Rs 157 Cr declined by 34% over the same quarter last year (Excluding exceptional items* and previous year tax write back** declined by 3%).

**Exceptional item represents impairment loss on plant and machinery at Dahej Elastomer Project amounting to Rs. 33 Cr for current quarter and Rs. 55 Cr for current year and impairment in value of investment amounting to Rs. 11 Cr for same quarter last year and Rs. 18 Cr for last year.*

***Current tax for the same quarter last year includes Rs 53 crores being excess provision of earlier years written back.*

Moving on to our domestic subsidiaries performance,

The performance of subsidiaries was impacted on account of nationwide lockdown due to COVID-19.

- Nina Percept and Cipy continued to face a challenging market conditions in wake of economic slowdown in Real Estate, Auto and Engineering Industry. This was further impacted due to COVID 19 conditions.
- ICA Pidilite has delivered EBITDA growth on account of improved margins due to scaled up local manufacturing.
- During the quarter, the company through its subsidiary Madhumala Ventures has made an investment of Rs.71.5 Crores in Trendsutra Platform Services Private Limited also known as Pepperfry. Pepperfry is an online furniture marketplace and has operations in India across multiple cities. As an organization, we continuously track the development of the start-up ecosystem in adjacent areas and relevant geographies. We intend to support and collaborate with start-ups for mutual benefits.

- The company had entered into a definitive agreement with Tenax SPA Italy also called as Tenax Italy for acquiring 70% of the share capital of Tenax India Stone Products Private Limited for cash consideration of approximately Rs. 80 Crores. This agreement was entered in February 2020. Tenax Italy is the leading manufacturer of adhesives, coating, surface treatment chemicals and adhesives for the marble, granite and stone industry. Tenax India is a subsidiary of Tenax Italy engaged in the sales and distribution of Tenax Italy products for the retail market in India. This transaction was completed in May 2020.

Now moving on to international subsidiaries,

- Subsidiary in Bangladesh reported higher sales and EBITDA growth for the quarter. Sales for subsidiaries in Sri Lanka, USA and Brazil got severely impacted in March 2020 due to lockdown in respective geographies.
- The full year, good sales growth and EBITDA across subsidiaries except for USA which is impacted due to onetime tax expense of Rs.6.3 Crores.

With that I end my opening statement and we will now open the floor for questions.

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

Abneesh Roy: Thank you for the opportunity. My first question is on the three countries where you are doing well, Bangladesh, Egypt and UAE, not just Q4, entire year also you have done well and much better than the India business. So, what is driving that, if you could discuss a bit of strategy what is driving it? Is it just the small size which is helping with more distribution or new products or market share?

Pradip Menon: Thank you Abneesh for the questions. Actually, it is a variety of reasons. As you know, in Bangladesh, we started off as a fairly small player in this market and we have achieved over a period of time quite strong position across divisions. The performance is driven by strong activities in the market, very similar markets to India and therefore the experience of working in India, we have essentially transplanted those same experiences in those markets and we are seeing the benefits of it. Obviously, the fact that when you have a momentum of sales, that automatically also leads to a better improvement in profitability and these are essentially the factors driving in Bangladesh and also to an extent in Dubai and Egypt. Some of the key products in domestic markets have grown well and we of course made sure that we have the right product range for the requirements in these markets.

Abneesh Roy: Second question is the investments you spoke in your initial remarks also. Why I am asking this is there is a history behind your investment in Elastomer project and then you had to write off almost entire investment. So, now if I see the investment these are extremely new businesses which carry a very high risk, we see a lot of these in that segment, many that have closed down essentially post COVID; it becomes that much more difficult, so could you elaborate what really is the reason on Pepperfry earlier level, news flow on this space and HomeLane as these are big amounts, Rs.70 Crores just in Pepperfry wherein most of the revenues just because of discounting, whether the business will survive three years down the line, big question mark, so what is driving here, is it just the product usage which Pidilite can get better by these relationships or which you can get beyond equity also, right? You do not need to hire equity to get Fevicol sales or any other product sales?

Pradip Menon: I will of course give a perspective and I am sure Apurva will have additional remarks to make on this one. It is like this. What we would ideally like to be as a company is be present in the areas where there is obviously growth opportunities and frankly speaking the online market place has done well and going forward in the current conditions that we have here with COVID and so on, it is even possible that these conversions could get accelerated and therefore being present in these segments gives us an opportunity to be very close. Having an equity stake, obviously means that we will have a very close collaboration with these platforms and therefore bring those insights to our organization and which can form a part strategy as the market moves gradually albeit in a very small manner to sort of a platform where ready to make furniture, etc., becomes more popular. We want to be there, obviously with COVID having set in and the new developments, which are happening we will be cautious. We will obviously look at these opportunities much more carefully going forward but obviously the investments we have made have been made with the right set of strategies in place and some of these points are elaborated.

Apurva Parekh: Abneesh, there are a couple of points on this. The investments that we have made in companies which are reasonably established, they are still early stage companies but however, all of them have had four, five years of operation and they have reached certain size and scale. The purpose of this investment, one is to collaborate with them which could result into increased usage of our products and services and second is also to get a very close view of the evolving ecosystem. Our view is that as this ecosystem evolves, if we have a close view and if we collaborate closely with them it could result into benefit with us. As we are investing in companies, which are little ahead in the race and they are not pure start ups, they have proven a certain business case and we want to work with them to see how it evolves further. So, in that process we had made investments and we very carefully evaluate investments in this space and will be very selective if there are any further investments..

Abneesh Roy: We have obviously a very long-term investment, there is no plan to exit at some stage?

Apurva Parekh: No, these are long-term investments and they are quite interesting. As our partnerships with them evolve you will get a better idea of what are the overall benefits that we are getting. Our product usage is one of the benefits, but certainly these are very long-term investment and they are very strategic in nature.

Abneesh Roy: That is all from me. Thanks.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Thanks for taking the question. I just wanted to get an update on how this first quarter has been post COVID post lockdown, you have shared, but would it be possible to kind of give a sense on what production levels are at versus pre-COVID levels and how has that played out because you have mentioned there is a labour challenge. So, is supply disruption still an issue or still a demand? If you could give some clarity over this?

Pradip Menon: Obviously some of the points that I would say would be sort of repetitive from my opening statement, but I think it is important to highlight it again. So obviously, since April, sales were virtually grounded to a halt and from May and June markets have gradually come back. Production is sort of linked with the demand, and therefore it is not just that we would open our factories because of availability of production or labour. Broadly, I would say that between April, where sales was virtually grounded to a halt and in May, 50% of the markets were working, we would broadly be in the range over 75% to 80% in terms of the capacity at which our factories are operating., Therefore that again will vary by factory to factory but broadly that would be the kind of level at which we will be operating today.

Avi Mehta: Perfect. The second bit was on the input cost, while you had highlighted the current prices were $650 to $700 in VAM what was the average for the fourth quarter and is the inventory a high cost which could be a pass through this benefit?

Pradip Menon: Good question. So, our current Q4 levels are about roughly 845-850 and you must remember that when we look at the dollar price, there is of course a currency factor that you consider depending on the currency impact. Going forward, we typically have a coverage, again it is a difficult question to answer because it is also linked with demand; typically we would have at least three months kind of a period where we would be covered whether with raw materials or the finished goods. So these will not really get a) immediately passed on in terms of benefits and b) we do not know whether these benefits are, as we said, sustainable, as we enter the following quarter. So, these are the two data points.

Avi Mehta: Sir, these three months is based on the pre-COVID you are essentially adjusting for the changed environment, I just wanted to confirm or clarify?

Pradip Menon: I am just taking it from here on, for broadly about two to three months, we would be covered.

Avi Mehta: Two to three months we would be covered from here on we will be covered?

Pradip Menon: From here on.

Avi Mehta: A bookkeeping question if I may, on the employee cost, why was there a reduction in QoQ basis? That is all from my side.

Pradip Menon: Employee cost is obviously a combination of the fixed cost as well as performance linked pay or variable pay. What we do is, we accrue cost as the year progresses and at the end of the year we true it up for the actual performance of the company and therefore there has been some

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adjustments we have taken in the Q4 to true up for the actual performance and what we will pay out in terms of variable pay. So, the adjustments that you see are on that account. There is no underlying difference or change in the costs.

Avi Mehta: I will come back in the queue for the other questions. Thank you very much.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Thank you for the opportunity. I just wanted to check if you could comment on some growth trends across categories and I have a very specific focus on how the trends are panning out for the waterproofing business from product portfolio segment for you through FY2020 and how do you expect the growth output to look like and in the same context how do you think the competitive landscape is shaping up in this category?

Pradip Menon: I will give you a sort of a color. I already gave you one color from the type or the areas in the country where growth is returning a little faster. So it is more of the rural and smaller towns which are returning to the growth faster than the urban towns. That is one point. The second point is that from a category perspective, wherever there are people staying in-house or within the house, there are certain categories where there is a trend of greater usage. For example, things to do with, where self help can be done for example, a Fevikwik or an M seal which is more like a maintenance product, which can be also a do-it-yourself set of products, those are the ones which are coming back faster. We are also seeing in pockets because of the fact that monsoons are going to set in pretty quickly in some places or it has already set in. There is a tendency to do repair part of the waterproofing and therefore, there is demand coming in there, because we already lost April and May in that space. But very difficult to make out a trend because with this current environment unless you wait for all these various factors to settle in, it is difficult to give a perspective. The new construction piece obviously, as far as waterproofing is concerned, was already going through some challenges because of the real estate sector, even within that we see greater opportunity in the smaller towns rather than the large metro cities, etc. That is the broad perspective.

Apurva Parekh: I think despite difficulties last year, still our construction and paint chemical business grew double-digit in value last year. There were challenges in real estate and construction segment but we had reasonable growth rates.

Latika Chopra: Thank you. Just one last bit, if you could give us some color of your domestic portfolio how much of the sales in your view broadly will be linked to your construction and also how much of sales will be linked to semi-urban and rural areas, any rough sense on that on an aggregate basis for domestic portfolio?

Pradip Menon: I will take a shot at the urban-rural one. Again, it is not easy because we have got several products distributed through wholesale and so on and so forth, which will then turn up in the rural areas. So, broadly we believe that around 30% to 35% of the sales would be semi-urban or rural and the balance would be in the urban exposure.

Apurva Parekh: I think as far as OEM and the new construction versus repair and maintenance, it is difficult to estimate it. It varies very widely from product to product categories, number of our product category in adhesives, consumer adhesive and all they are not linked to that at all. So, it is difficult to give a figure at a company level on how much that segment be, but one thing which I want to stress to you is that even within construction there is a big difference. What we see as a traditional construction which is large building is much smaller part of our business, the much larger business is the individual construction, the individual buildings and traditionally they are less impacted by the real estate stress. So as far as Pidilite standalone goes, a lot of business is from the standalone individual housing. That is the much larger component of even new construction.

Latika Chopra: This is helpful. I will come back in the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Good evening. Thanks for taking my questions. Just one clarification on a comment you had made earlier. In the month of June when I think the supply chains issues are behind and the country is fully opened up, did you mean that the business is at a 75%-80% of the normative levels now when you made that percentage comment? I just wanted to clarify that in terms of recovery.

Pradip Menon: **No,** What I meant was that 75% to 80% of our factories are in a position to operate at a normal capacity. Whether we will operate, whether it will be operating at that capacity, it all depends on the demand situation and therefore frankly speaking, we will have to wait for another two months to get a sense of the new normal or the new demand sort of picture.

Arnab Mitra: Any comment on what level of normative business you would possibly be now on a run rate basis, not for the full quarter but on an ongoing run rate basis now that the country has opened up, any kind of ballpark number you could give us on that?

Pradip Menon: I would hesitate to say that because as I said, there are so many factors playing in. We have got April which was shut, we have got May where half of the country was not opening up. So when we look at June, you may see sudden increase in some particular category, as I said let us say somebody wants to do waterproofing urgently because monsoon is in, that does not mean that is the new norm. So as I said it is impossible for us at this stage to give that kind of a firm number, we have to wait for a couple of months, and then only we will be able to get a sense that after it evens out, we will then be able to give you a picture. So, we will have to wait unfortunately.

Arnab Mitra: Completely appreciate that. The second point was on what you have highlighted in your opening comments also, that the bigger problem is in the larger cities. So, while you give a rural urban mix, any sense of how much the metros would be contributing to because that is where it seems that the activity level recovery is very, very slow because of COVID?

Pradip Menon: I am afraid I do not have a number to give you and we do not really track it in that manner, so maybe will reply to that offline or something.

Apurva Parekh: One thing to add on about metro is that a lot of sale is through wholesale market. Wholesale market in metro still are traditionally very strong and we are finding a lot of that demand was because some of the wholesale markets in metros are shut, some of the demand is already coming from rural areas and semi-urban areas and with our deep distribution once that demand comes, we are able to cater to it.

Arnab Mitra: One last bit, if I may, in terms of carpenters and masons who are the executors, is there any problem of availability of people given the migration that we have heard or is there sufficient workforce there to execute waterproofing and wood working?

Apurva Parekh: Currently there is a shortage of labour availability, as all of you know that there are a lot of migrant labours have gone back to their villages but some of them are coming back as well. So, overall what our view is that as demand starts coming up, the labour will come back, there may be some temporary gap, which always happens. In fact, traditionally every summer or if you recall, last year also post elections lot of labour had gone back and it does create a temporary impact. But our view is that as the economy opens up and as the demand starts happening, the labour also will start coming back, but as of right now there is some shortage.

Arnab Mitra: Thanks for the answers. Very helpful.

Moderator: Thank you. The next question is from the line of Yung Juen from Tokio Marine**.** Please go ahead.

Yung Juen: Thank you for the opportunity. Two questions; can I just ask for the revenue up to March 21, 2020, year-on-year what is the volume growth?

Pradip Menon: I think if you look at our performance or even for a full year basis, the volume growth was broadly around half, roughly half of the total net sales for the full year, if you look at our full year growth of what we reported of 4% broadly 2% was volume and mix. I would expect that broadly about 2 to 3% would be volume, but we have not really done our working up to March 21, 2020 to arrive at the numbers. I am just taking a differential to give you a sense.

Yung Juen: Can I ask what is the current primary inventory compared to the secondary inventory in the channel, are you able to give a sense of that? How many days of inventory is in the channel and how many days of inventory is at your factories or warehouses?

Pradip Menon: I will give it a shot and of course Apurva will chip in. I think the first is the quantum of inventory is in days, it depends obviously on the demand situation and what is the sale in terms of days that you are talking about, so obviously when you are in April, situation of inventory was different and now with the markets having opened up, we typically do not have a significant amount of inventory in the trade. As you know that if you look at our dealers who deal with our products, they do not have large warehouses where you store products, so relatively limited coverage they would have and therefore it is not that there is a significant set of stocks lying with the trade. So that is the kind of color I can give you.

Yung Juen: I did not hear the answer to the second part of the answer?

Apurva Parekh: What I was just trying to say is that for us our primary customer is a distributor or a stockiest and our sale to them is on a replenishment basis and typically the inventory with our distributor and stockiest is 7-15 days and that does not change pre-COVID, post COVID in terms of number of days, it remains more or less constant. Pidilite's inventory depending on the product range is around 30 days plus or minus, so that is the kind of inventory we keep with us and we replenish the stock to distributor and stockiest. We do not have direct visibility of inventory at dealer level, but they are fairly careful in terms of the kind of inventory they keep and they adjust as per the demand situation in the market.

Yung Juen: Great. My last question on the synthetic, is there anymore to impair or this investment is fully written out because this has been a project that has been for some years, because you will be writing down. I am just curious if there is any more left or is it written off now?

Pradip Menon: I can confirm that this is a complete write off. There is nothing else left to be written off. There is a small value, which we are transferring to our internal other business for utilization, but as far as the project is concerned, there is nothing left.

Yung Juen: Thank you so much. All the best.

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

Tejas Shah: Thank you for the opportunity. Hope the whole Pidilite team is keeping safe and healthy in this crisis. First question, if you can give some directional comments on market share movement on annual basis in adhesives?

Apurva Parekh: It is a question of market share?

Tejas Shah: Yes Sir. Even directional movement will help if not the numbers.

Apurva Parekh: Directionally I think we have maintained or strengthened our market share in the last year. I do not believe that there is any significant movement in any of our major product categories.

Tejas Shah: Sir, secondly from the supply chain perspective there is a lot of concern around sourcing from China for any other categories, and last week border crisis is an additional hurdle now. So, do you see any supply side disruption off late and for that the raw material prices are hardening in certain divisions?

Pradip Menon: We of course have done a review of our portfolios. We have all the key raw materials that we source, we do have alternative locations as far as servicing is concerned and therefore we do not see a risk from that perspective in terms of China sourcing at this stage. We have got multiple vendors and we continue to evaluate opportunities, so that if there are any supply disruptions we have alternative sources in place.

Tejas Shah: Sir, couple of clarifications. There is a reclassification in our consolidated segment where Rs.635 Crores of consumer and Bazaar revenue has been shifted to B2B division. So, this pertains to which segment or which subsidiary?

Pradip Menon: This is not a subsidiary. What we have done here is that we have reviewed the way the information is presented and it is reviewed by our Chief Operation Decision makers (CODM) which is in this case the MD and for that purpose we have moved certain businesses in specifically joinery and construction chemicals which are in the project space from C&B to B2B and this is essentially a change which will align with the way the information is reviewed by the CODM and in line with the internal reporting requirements. The numbers are not as big as Rs.635 Crores, the movement is around Rs.228 Crores. That is the kind of movement.

Apurva Parekh: Pradip, I think, he may be referring to consolidated. We have moved the waterproofing services and flooring business also to B2B.

Pradip Menon: What I spoke was on standalone. What Apurva is talking is about the consolidated entities, which is in waterproofing and on our flooring segment, like Cipy.

Tejas Shah: Sir, one more question, last one. This Rs.71.5 Crores in Trendsutra is for how much stake?

Apurva Parekh: This is 2.04% stake.

Tejas Shah: That is all from my side. All the best. Thanks.

Moderator: Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Thanks for the opportunity. Just wanted to ask a question on the innovation front. We have tied up or we would have entered into strategic ventures with a few other partners for the new categories, but organically are we looking at any new category or any new segment to drive the future growth?

Apurva Parekh: For Pidilite, innovation has been always very important and almost the entire sale of Pidilite is from product and technology developed in-house. So, on a very regular and continuous basis, we develop new products and innovation in all our core category and some adjacent categories. So, say for example, within construction chemical, last year we introduced several new products in terms for tiling, for coating and for several other application for waterproofing. So within each product category, we have introduced new products. Even within adhesives, there are new substrates which are getting developed, we have developed new products for those applications and so across all product category new products are introduced on a regular basis.

Nikunj Doshi: Do we have a number as to what percentage of turnover comes from the products introduced in the last two years or something?

Apurva Parekh: That number we do not share because sometimes it may replace some other products and it is very difficult to estimate and also we do not seek in that manner. Sometimes it does not give the right picture for some of our product categories and even gestation period is long. So for us innovation is a very continuous exercise and we do not see there is a separate need to track, but it should drive the overall growth, that is the main objective.

Nikunj Doshi: Thank you very much.

Moderator: Thank you. The next question is from the line of Amit Singha from Macquarie Capital. Please go ahead.

Amit Singha: Thank you for the opportunity. My first question was on your overall cost saving program especially in the current environment that most of the companies have talked about their cost saving program because of the lower demand etc., so how do you see that spends going forward including the A&P spend and any particular program which you are running for other costs?

Pradip Menon: Thank you for the question. I think like any sort of responsible, prudent corporate we have obviously taken measures to make sure that we conserve cash, in terms of deferring capexes which are not really urgently required or they do not have any immediate benefits in terms of meeting demand requirements and so on and so forth. Similarly, we also looked at our costs, our discretionary costs and made appropriate adjustments, deferring spends where it is appropriate. Even in the area of advertising and promotions, we will be looking because many of the expenses are actually not possible. For example, many of our spends are relating to spends in physical meetings with our users which are not possible in this current environment, so some of the spends are automatically getting deferred. The idea here is to make sure that we have the ammunition in place when market returns and the demand returns to meet the requirements at that stage. Having said that we have not shied away from making investments for example, digital spends even during this period of lockdown, you may have seen some fairly interesting digital ads from Pidilite and therefore those leveraging the right technology in the current environment, we continue to do. In terms of costs, we are obviously making sure that for example on people cost we have taken a step to defer increments to the latter part of the year based on how the current few months progress. So, those kinds of typical prudent actions we have taken and no structural action at this stage because we still are a long-term believer in the India story and we are positive long-term. So, no structural action as of now.

Apurva Parekh: I think you have covered all the right points. I think as the year unfolds, we will get a better idea and then we will decide.

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Amit Singha: Second is, I am sorry again to harp on the same demand related question and I know it is not easy for any of us including you to give kind of indication when there will be recovery and what kind of a recovery we will see, let us say in the next six months or so, but some of the companies have given their guesses in terms of the normalization and basically in that direction any view, so whether the recovery in the entire portfolio especially the domestic business will be there in third quarter or do you think the recovery can be much faster than the third quarter, any color there that will be helpful.

Pradip Menon: Again, I will make an attempt and Apurva can chip in. See, this is a black swan event and in this kind of an environment it is very difficult for us to even estimate how things are panning out. As we said, I gave you a color in terms of how things have worked within April to June and we are not confident that whatever we are seeing in May and June is actually a new normal and you must understand that we are not really in that essential commodity category or essential product category where people use it every day like some of the other category. At this stage, it is very difficult to give a sense and we really like to study and look at it for the next couple of months before really taking a call. Obviously, when we talk next time around for the Q1 results, certainly we will be in a better position to give you a view, but at this stage, we are not able to give any further color. I also gave you some color in terms of the categories where we see spurt in demands, some of the demands could be pent up, so again very difficult to estimate at this stage.

Apurva Parekh: I would like to add to this, compared to what we were in April and May, lot of things have opened up in India as all of you know and lot of small town, semi urban and rural areas have opened up, a lot of parts of south barring Chennai has opened up so there has been a good progress in June compared to April and May. But going forward what will happen, it is very difficult for us to say or we are not in a position to say better than lot of other experts. So, need to see how economy and GDP performs over the next few months, but clearly in June a lot more things are open as compared to April and May and the trend in semi-urban and rural area is average.

Amit Singha: The difference between the semi-urban and rural area versus let us say some of the areas which are under lockdown like Chennai and to some extent the other metros is the difference very stark?

Apurva Parekh: The difference is obviously for a very short period, so we cannot comment on it, but yes cities like Chennai, Mumbai still they have not fully opened up, a lot of markets remain closed, lot of users are not actively working. So, there is a fair amount of difference between cities like Chennai and Mumbai which are significantly impacted as compared to semi-urban and rural areas. In our note we have covered all the things, we have tried to give as much details as possible about what is opening and not. So, as I said in south barring Chennai a lot of business has opened up, but the rest of India we know continues to be slow, but semi-urban and rural areas almost across India has started opening up. I think it is too early and I think, as Pradip said we need to see how the next one or two months go together to have better sense of the demand condition, and you will also have a sense by looking at how other companies are performing and how markets are opening up.

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Amit Singha: I completely understand Sir. Thanks for the detailed answers. Just one last bookkeeping question if I may. The Other income this quarter was significantly lower compared to the run rate of the fourth quarter, if you can give some details there?

Pradip Menon: I think the primary reason I just briefly covered in my opening remarks also. There are two parts to it. One, the significant drop in interest rates versus the prior year that is one factor, if you want the portfolio obviously we are earning much less and all of you know, the interest rates in Q4 with the kind of reduction, which have happened and the second is last year we did have certain mark-to-market gains in the treasury portfolio, which are sitting in the base. Obviously, this has not repeated itself this quarter this year and that is primarily explaining the difference between last year and this year quarter-on-quarter.

Amit Singha: Thanks a lot, and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Good evening. Two questions, one in terms of geography, revival in different geographies, there have been certain comments in your press release. What kind of revival trends do you see in east, west, north and south? If you leave aside couple of metro related comments that you have given, what kind of revival trends are there?

Apurva Parekh: I think what we have said; many people want to sort of repeat what we have said. I think we have not much to add. I think we have said as much detail which is available to us, but Pradip you may repeat that.

Pradip Menon: I will just add, it is there in our release as well. I think if we want to put a further color to it, all I can say is that certain markets in the west for example, Maharashtra, Gujarat in particular, the opening has been much slower. So, that is one color I can give you, in particular about the cities like Surat, Maharashtra, Mumbai, Pune and so on and so forth. So that is the further color I can give you, but other than that pretty much what we are seeing is rural, basically we believe now that the demand will be led by rural and semi urban markets in this environment and the metro cities will follow and that is the kind of broad trend that we are seeing so far.

Prasad Deshmukh: Sir, on the balance sheet there is a sharp jump in the cash on books. I do not know if this is just because the investments have gone down, just wanted to check if there is any or are you keeping powder dry for any acquisition possibilities or is it just a movement from investments to cash?

Pradip Menon: Obviously what we have done is overall investments between end of last quarter and this quarter has come down because we have declared an interim dividend which we paid out in March and that was about Rs.428 Cr, because all that happened well before the pandemic happened. So, the overall investments between last quarter and this quarter, is lower. We have moved some part of our portfolio in a prudent manner to fixed deposits, which are around Rs.500-odd Cr and therefore you see the cash balance looking larger. But if you look at it from an overall investment perspective the differential between December and now, is broadly the movement in the interim dividend that we paid out.

Prasad Deshmukh: Thanks.

Moderator: Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Thank you for the opportunity. Just wanted to understand the Rs.70 Crores investment that you have done what kind of Pepperfry revenue are we expecting from product sales on a normalized basis over the two, three-year period at least?

Apurva Parekh: I think it is not only for our sale of our products, it is also for the revenue which is relevant. As I said earlier Pepperfry is the leader in this segment and we have a number of different collaboration and partnership initiatives which are planned, which should be across various products, services and joint marketing activities. So, I would not like to put a figure in terms of related to consumption of our product. That itself is one of the benefits of the association between Pepperfry. Clearly, they are the largest player in this space at this moment and hence the overall collaboration with multiple initiatives is the purpose.

Varun Singh: So, what do we expect from Pepperfry then if not revenue?

Apurva Parekh: We will have revenue. We will have some joint marketing activities just some common services that they may offer, so number of other things, plus it is an investment in a stage which will allow us to have a very close access and view on how this ecosystem is developing. This would allow us to also develop strategy and product which may be applicable to other customers in this space. So overall, it is an investment for which of course we get a part of the stake in that company and we can see very closely in terms of how the new startup companies are operating and growing and along with that we will have some associated benefit in terms of use of our products and co-developing capabilities.

Varun Singh: Are we saying that our employee will be at their place and we will be observing whether they are doing and how this will be new categories or something like that?

Apurva Parekh: You do not need to have employees in that place, we will be closely working with them at a very senior level to understand how the business is developing and how the overall ecosystem and market is developing. As we all know that the new age economy is developing well and all the business is growing in this space and it is important for a company like us to get a better understanding of this, but yes, our team will closely collaborate together.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Sir, I have two questions. The question earlier participant asked, so I am asking in a different way. So, basically what would be the key monitorable that you would be tracking to track the progress of this investment, which we are doing in a new generation company? So, what is the key monitorable? That is one, probably internal monitorable, only in financial terms? Second question is as we divide our products in growth in pioneer categories, so those growths in pioneer categories are the sort of products which we need to reach to the channel as well as to the consumer, how they are supposed to be used? Because of this entire relatively a complex process, do you think that the growth rate or the growth in pioneered category can be slower for near term because it is not easy to teach everyone in this kind of constrained environment? Is it a right assumption?

Pradip Menon: I will just make a very generic comment. Of course, Apurva will give a more detailed one. I do not think we should just go by a few months or a few weeks of COVID to completely relook at growth versus pioneering categories. We are not really looking at that way. Some of these categories that we are talking about, we have a long-term belief in the growth in those areas, which is why we are invested. In many of the categories where Pidilite has got growth has come with some lag and it takes time for some of these categories to develop and we have got the benefits out of those investments, so we do not believe we should change our strategy for two, three months, but Apurva please free to chip in.

Apurva Parekh: I did not fully understand. What was your second question? The first question was what are the monitorable related to some of the early said investment? And what was your second question?

Keyur Pandya: For example, our product Fevicol, in the channel everyone uses it and everyone knows how to use it, whereas the products in growth in pioneered category they need some kind of teaching for the channel as well as for the consumer. So, basically it is an evolving process. So, do you think the growth can be slower in those categories?

Apurva Parekh: I think as Pradip said…

Keyur Pandya: Despite the lower level of penetration, just because of this awareness issue that process slows down?

Apurva Parekh: I do not think I have fully understood the question, but overall I think the growth and pioneering categories obviously we expect them to grow at a faster than the rate than established products and obviously we put a lot of initiatives in those categories, so tomorrow they become larger and established categories. As far as our established categories goes, we believe that in India there is a lot of growth and consumption which is likely to happen for them. They continue to remain products of our focus and we expect good growth rate in them as well. I could not fully understand your question, so I hope, I have answered it. On the first point as far as the investment goes to start up, first of all, the key purpose of this investment is that these are strategic investment. It is to get the right insight of how the user behavior is changing, how online interior décor is changing, how the consumption pattern will change, is primarily very important for us and by making this investment, which are not very large, we get very close eye in terms of what is happening in that space and it allows us to develop products and services which we have application with them as well as application outside of them to other customers. Hence tracking cannot be in terms of only what they use, but tracking in on number of criteria, it would depend on how we are able to evolve our products and services in medium to long-term for the usages by such strategic customers as well as others and normal consumption. Someone asked before this, you do not need to invest in a company for them to use. Most of the customers in India who would use our products, some of them were already using our products; however, a strategic investment allows us to operate and collaborate very well. I think in today's time also you would have heard in other places where companies make strategic investment into other companies and you have heard a number of cases in India where this has happened where companies make a strategic investments so that they can collaborate and work closely together and our strategy and approach is similar.

Keyur Pandya: Sir thanks a lot. All the best.

Moderator: Thank you. The last question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Thanks for the opportunity. I have two questions. The first question is like you have given some understanding on the India business can you throw some light on how the international businesses are panning out and which are the geographies which has not opened or still in the lockdown period?

Apurva Parekh: As far as international market, many of them were in lockdown and slowly they were opening up. For example, US was completely shut in April and May, but has now opened up, but while they were closed, a lot of sale was happening through e-commerce and retail channel. But you know the manufacturing and warehouses were closed. Brazil was semi-operational, Bangladesh and Nepal I guess were similar to India in terms of they also had a fairly strict lockdown. So, a lot of countries they had a different periods and most of them had lockdown and manufacturing and warehouses were impacted, but in most places, it has started opening up. It looks like in India, there could be a gap here and there, but many of the markets perhaps started opening up and the normalcy is returning in some places faster than others. Pradip do you want to add anything to that?

Pradip Menon: I think only one point is that one of the markets is of course small. Nepal for example, I do not think the lockdown has yet been lifted. So, there are some pockets like that, but largely they have been like India situation.

Shirish Pardeshi: My last question is on you earlier mentioned that south is up to the mark and even north some pockets are up to the mark, so would you be able to quantify what kind of business we get in south and north markets.

Pradip Menon: I do not think we share that level of data in that sense. So, I do not think we will be able to give that info on the call, but I do not know Apurva you want to give any other color?

Apurva Parekh: What we would like to say is clearly south and east have opened up much faster than north and west. In south barring Chennai and a few districts around it bulk of south has opened up, so basically that means that the business has opened up, consumption has started happening and the market has opened up largely other than Chennai and a few districts. East is also much better. North, West and Center is taking a little bit longer time. Percentage right now I think it is too early to share because we are just above 15, 18 days in June month, so quarter end would be an appropriate time to reflect on it, but even within that it could be very difficult to differentiate on what is the pent up demand and what is sort of a normal demand. So, I guess we will have to wait and watch, obviously as the market opens up, GDP starts to respond, we will certainly be prepared to benefit from it.

Shirish Pardeshi: Thanks for that detailed explanation. What I was trying to understand is the consumer bazaar business is taking a lead or is the project business is taking a lead?

Apurva Parekh: Consumer & Bazaar and Business to Business, both the business has started responding. Our B2B business, also is linked to the consumption with lot of end users, so our B2B business has also started responding. As far as construction goes, as I said earlier the individual housing segment has started responding too in this geography which I just talked about, but in larger metro, the larger construction still will take a longer time to open up. So, a lot of large construction which is namely in bigger cities, the multi-storey building which greatly impacts our company's like Nina Percept because they are still impacted as their activities have not really geared up. There are a lot of individual housing especially in areas like south and east and some parts of north and west they started responding. So, construction activities in smaller areas, rural areas, lot of construction which was in pipeline has started, but we would not be able to give you any numbers if that is what you are looking for. It could be very early and it would be misleading.

Shirish Pardeshi: Thank you. All the best to you and the team.

Moderator: Thank you. I will now hand the conference over to the management for closing comments.

Apurva Parekh: Thank you everybody. Thank you for the call and questions.

Pradip Menon: Thank you all. Thank you very much.

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

(This document has been edited to improve readability)