

12th May, 2023

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The Secretary
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Exchange Plaza, Plot no. C/1, G Block,
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Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 9th May, 2023.

A recording of the transcript is available on the website of the Company viz. www.pidilite.com.

Kindly take the same on records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

Manisha Shetty
Company Secretary

Encl: as above

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**“Pidilite Industries Limited Q4 FY23 Earnings
Conference Call”**

May 09, 2023

**MANAGEMENT: MR. BHARAT PURI — MANAGING DIRECTOR
MR. SUDHANSHU VATS – DEPUTY MANAGING
DIRECTOR
MR. SANDEEP BATRA – DIRECTOR FINANCE & CHIEF
FINANCIAL OFFICER
MR. SUNIL BURDE – SENIOR VP (ACCOUNTS)**

**MODERATOR: MR. ADITYA KASAT – MOTILAL OSWAL FINANCIAL
SERVICES LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to Pidilite Industries Limited Q4 FY23 Earnings Conference Call hosted by Motilal Oswal Financial Services 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aditya Kasat from Motilal Oswal. Thank you and over to you.

Aditya Kasat: Hi, everyone. Good morning, afternoon, evening to all and trust you are having a great day. It's a pleasure to host the Quarter and Year-End Conference Call of Pidilite Industries Ltd.

The Company today is represented by Mr. Bharat Puri, Managing Director., Mr. Sudhanshu Vats, Deputy Managing Director, Mr. Sandeep Batra, Director Finance & CFO and Mr. Sunil Burde, Senior VP (Accounts).

I will now hand over the call to Mr. Batra for his opening remarks. Over to you, Sir.

Sandeep Batra: Thank you and very good evening to all those who have joined the call.

I will quickly give you a summary of the 'Financial Performance' for the year and the quarter, the results of which were approved by our Board yesterday.

A quick look at the full year financials:

Consolidated revenue for FY22-23 came in at Rs. 11,752 crores, so obviously a great milestone for the Company and was up by 18.9% over the previous year. This was driven by strong volume growth, improved mix and price increases. Growth was broad based across the Consumer and Bazaar and the B2B segments with the Domestic Consumer and Bazaar segment reporting growth in excess of 20%.

Consolidated margins came in at 242 basis points lower, largely on account of the escalation input costs which were pronounced in the first half of last year. These increases in input cost were partially mitigated by pricing, improved mix and cost reduction initiatives.

Consolidated EBITDA came in just a shade under Rs. 2,000 crores and at Rs. 1,984 crores; was up by 7.4% over last year.

Standalone for Pidilite Industries Ltd. revenues were Rs. 10,545 crores which grew by 19.1%. Again, the growth was led by a very strong 20.9% growth in the Consumer and Bazaar segment whereas the B2B segment grew by 12.4%.



Amidst uncertain global economic conditions and inflationary pressures, the international subsidiaries reported modest sales growth, but with improvement in EBITDA and the Domestic Consumer and Bazaar subsidiaries continue to deliver industry leading profit and growth. The operational cash flow remained healthy during the year and working capital in March was kind of similar levels as what it was in March '22.

The Board has recommended a final dividend of Rs. 11 per share subject to approval by the shareholders at the ensuing Annual General Meeting.

I will quickly cover the performance for the Fourth Quarter:

Consolidated revenues at Rs. 2,674 crores were up by 7% over the same period last year. In this quarter, we saw material costs come down vis-a-vis the same period last year as well as sequentially. The drop in material cost as a percentage to net sale for the quarter was 317 basis points over the same period last year and nearly 500 basis points sequentially.

EBITDA for the quarter at Rs. 459 crores was up by 14.5% and PBT for the quarter was up by 13.5%.

Standalone revenues at Rs. 2,366 crores for the quarter were up by 6.6%, PBT for the quarter at Rs. 389 crores was up by 13.6%.

The consumption rates for VAM, our key raw material, moderated during the quarter with Q4 consumption rates around \$1,300 per ton versus \$2,420 in the same period last year and around \$2,000 in the third quarter. Current rates are around \$1,100 a ton.

During the quarter, we also augmented and completed our coatings portfolio with the launch of Haisha range of products in identified geographies in select states. Basis the market response, we will decide the next steps.

With the aim of upgrading our manufacturing facilities and servicing market demand, we have commissioned three plants in this calendar year with the plan to commission another 5 before June 23. While the near-term environment is likely to remain uncertain, we look forward to the future with cautious optimism. The moderation in input costs, easing of inflation and growth in infrastructure and construction should enable us to deliver volume-led profitable growth. We continue to invest in building a resilient and agile supply chain and in digital initiatives.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: My first question is on the deco paints interior. In the interview you have mentioned that this is not a full-fledged launch, this is more of a range completion. So, wanted to understand what exactly you mean in terms of mass media advertising and building connects with painters



because you have been in exterior paints, but wanted to understand when you benchmark against the market leader in paints, how is your painter connects, so if you could answer these two aspects?

Bharat Puri: See Abneesh I knew that A) you will have the first question and B) I knew that your first question will be on paints. Having said that, as far as advertising the product of mass media, let me give you a little bit of background. You know that we have been in paints or parts of paints for a long period of time. So, paint is not new for us. What we were getting is a request from a lot of our dealers, especially in some geographies saying that, you have two-third of the range, but you do not have one-third of the range. Can you please at least complete the range for us, so that we can deal with just one Company and satisfy consumers. And once we assess this, we obviously surveyed this with a fair degree of seriousness and when we saw that there was a lot of demand for this, that's when we went and launched the range of paints. As far as our user-connect is concerned in these geographies, now I do not want to compare with others, but obviously one of Pidilite secret sauces is user connect and it is of a high order.

Abneesh Roy: Does your aggression increase versus what you have done in 15 years because you already had two-thirds of the portfolio, that I wanted to understand?

Bharat Puri: See, right now it is a range completion exercise. We will gauge the response so on and so forth. Obviously, we put the right products in the market. I mean this is not one of our big growth initiatives of the future where we have got a set of plants which we are putting behind it, etc. It is one more initiative which helps us complete our range as the home improvement Company. Now, based on the response let us wait 3 to 6 months and then maybe this question will have a better answer.

Abneesh Roy: My second question is on slide number 10, there if I see in terms of sales and profits, the B2B business has grown profit faster even in this quarter and full year versus the Consumer and Bazaar which is a bit surprising, given the kind of inflation you have seen for major part of the year, why should B2B profits go faster than the consumer bazaar and that is even more surprising because on sales Consumer and Bazaar has grown faster. So, is there any reporting change issue here because normally branded parts should see faster profit growth?

Bharat Puri: What happens in B2B businesses both ways, remember when prices go up, you raise prices much quicker because your contracts are normally for a shorter period of time whereas in Consumer and Bazaar, given the inventory that you have in trade, given the raw material inventory etc. that you have, it tends to take a longer time. So, what tends to happen is, you will get back margin quicker here simply because you will be able to A) get price earlier and give back price much quicker. B) The other side is of course on raw and packing materials in industrial products the inventory is much lower. So, your consumption rates drop much quicker.



- Abneesh Roy:** Last question on Araldite Route-to-Market change so why this has been done now and what will be the benefits and if you could elaborate what exactly was done here in terms of Route-to-Market change?
- Bharat Puri:** Basically Araldite had a different Route-to-Market from Pidilite in the sense that they had one more layer in the distribution chain which they called as Authorised Dealers (ADs), which stood for almost like a state Carrying and Forwarding (CNF) who was actually carrying the inventory and therefore obviating the need for the Company to have depo so and so forth and carry that inventory in each location. Given that in Pidilite we already have the warehouses and obviously we are a relationship-oriented Company, we did not cut off straight away. We gave the ADs scope to do other businesses so on and so forth, but frankly this layer was unnecessary in the distribution change. It is good for a multinational that does not have a bazaar or a consumer presence. So, we basically removed one layer. So, in the last two months of the year in February and March, basically we sold all of the stocks which were at the AD end because now there will be no ADs from first of April and therefore our primary sales in Araldite was impacted substantially in the fourth quarter.
- Abneesh Roy:** And this you will recover, right?
- Bharat Puri:** Of course, secondary sales is perfectly alright and remember what is important to a Company is the secondary sales which is simply the sales from the dealer to the final consumer. So, there we are growing very healthily, here what was happening was we are eliminating one full step in the distribution chain that will have three months, therefore issues as far as the numbers are concerned, but obviously it is to the benefit of the Company because you are removing one layer of the distribution chain and then the sales is not impacted in any way.
- Abneesh Roy:** And issue is largely done right from the reporting perspective you said 200 to 300 base impact, will the impact be in Q1 also in terms of the primary versus secondary, I understand, but in terms of the reporting the impact is done?
- Bharat Puri:** 95% is done so there will be no impact in Quarter 1.
- Moderator:** Thank you. Next question comes from the line of Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar:** Sir my first question is regarding the price hikes, so could we get an approximate sense as to how much has been the cumulative increase in price hikes from last year to this year say over the past 12 months and do you expect to give away certain price hikes for driving volumes from here on?
- Bharat Puri:** One is, it is very difficult for us to give you weighted figure because the raw material situation has been dramatically different for our different verticals. So, for example, wood adhesives which are impacted by VAM had far higher increases, waterproofing and coatings had lower



increases. The consumer adhesives like FeviKwik etc. had been even lower but let me just give you a gross figure which I will come back to. But as far as the future is concerned, no we do not see any need for any future price increases. If the situation or materials gets more benign, we will actually see that we have always maintained that at Pidilite our focus is on profitable volume growth if our premium vis-a-vis other product (of competition) goes more than 15%, we will actually cut back on price. In a broad sense therefore, we will look at profitable volume growth. I will give it to Sandeep for the exact weighted numbers on price increases.

Sandeep Batra:

So, if you look at the full year versus the same period last year, the amount of pricing that is embedded will be in Consumer and Bazaar is in the range of about 8% to 10%, but if you come to the quarter, that number will be much lower because lot of the pricing happened in FY21-22 also. So, it may be around 4% to 5% in the quarter, but for the year it would have been much higher. Weighted average would have been about 8% to 10%.

Sonali Salgaonkar:

Sir, my second question is your presentation gave a lot of color of the demand that was shaping up in Q4 but coming in Q1 how do you see demand both, in Consumer and Bazaar as well as B2B? The reason I am asking is because, we have got to understand that the CAPEX survival cycle is going on very strong. So, do you foresee a better traction in B2B from here on and also about the consumer discretionary slowdown that we have been talking about?

Bharat Puri:

See, as far as consumer discretionary is concerned, the silver lining has been that in the fourth quarter for the first time unlike FMCG, we never had a decline in rural or semi urban sales. It only slowed down, normally we used to grow at 1.5x urban sales in this case rural and semi urban became slower than urban. For the first time in the fourth quarter, we have seen rural and semi urban actually grow faster than urban. Now it is too early to call it a trend. We are very hopeful that this continues over the next three to six months. The other tailwind that we have clearly, is the real estate in construction is seeing an upsurge and that obviously benefits us about one-third of our demand comes out of new construction. So, on an overall basis we would say on domestic demand, as we are fairly optimistic because hopefully it will continue. International is actually a tale of two different variables. Wherever we have an exposure to international markets, or we are exporting directly we are finding a substantial impact there. So, for example, our pigments business exports a lot to the US and Europe. There we are seeing straight declines because the markets there are very soft, I mean they are in near recession like situations. Even our customers in India who are supplying abroad, this could be leather, this could be textiles etc. we are finding they are suffering and therefore in a sense we are suffering. On the other side domestic demand for B2B whether it be for example infrastructure, construction, waterproofing of large projects, joinery continues at a great rate. Domestic B2B is alright, it is only international B2B which if you ask me is uncertain right now.

Sonali Salgaonkar:

And just one last question from my side, many of the paint companies have entered into some of the products that you are into, how do you foresee competition shaping up?



Bharat Puri: We are not at all strangers to competition. We have had with our market shares and market leading position every year we have two or three new competitors in one range, we had all the multinationals, we had Henkel, 3M, Huntsman, all of them come in, and then we have had the large paint companies. Now paint companies have been in waterproofing for over 10 years now, it is not something that is new to them anymore. Having said that, you can see that these remain our growth areas, we remain clear leaders. Obviously, we do not take any of them lightly, we keep a close watch on them, and we are clear that therefore we must maintain/increase market shares. If you look at the whole year, if you look at our Consumer and Bazaar businesses, we have got healthy double digit volume growth, that will suggest that the market is not grown at this rate. So, there is no way that we would have lost any market share. Having said that, as we said, competition is something that will keep happening. Our job is to hopefully delight our consumer and our customer a little more than everybody else and that is where our focus lies.

Sonali Salgaonkar: So, our guidance for FY24 remains double digit volume growth and 20% to 24% EBITDA margins, is that correct?

Bharat Puri: We do not go into the guidance. We have always said that our objective is to grow at 1x to 2x GDP depending on the economic conditions, that is what we would be aiming for. Therefore, profitable volume growth in that sense remains our single guiding light in these circumstances. The margins we have always said that our range on a normal basis is 20 to 24. We see ourselves returning to that range this year, yes.

Moderator: Thank you. Next question comes from the line of Avi Mehta from Macquarie Group. Please go ahead.

Avi Mehta: I just wanted a follow up on the last question, basically how do you see the interplay between volume growth and realization growth moderation playing out in FY24 as you see the input cost moderation, does volumes kind of easily offset this, if you could please share your thoughts on that please?

Bharat Puri: You see this year is going to be a volume led. Why I am saying is our focus must be on a stable volume growth. If you would ask me what would be our push at our field, it would be two things. One is obviously volume growth, the second is mix, better product mix because we do not see any price led growth. In fact, if the situation gets more benign you may actually have volumes exceed value growth at times, but let us wait for three to six months and see where the situation goes before, we pass judgment on that. So, therefore we would see this being a year led by volume growth with some amount of hopefully mixed growth also.

Avi Mehta: And sir does the penetration opportunity kind of change or penetration goes up or is the competition something that one should be concerned I am just trying to better appreciate because in the last quarter call you said you are not seriously worried about pricing based competition coming back, but does that in any way help volumes, how do you see that and how is that traditionally panned out in the earlier years?

- Bharat Puri:** While obviously we are leaders in all of our segments, even in what we call the popular and the economy segments of say wood adhesives we are the leader by far. Therefore, we have offers at every price point, we have our own equations to know in what segment what is the price premium that our products should command, and we remain within the band and therefore push across the board. So, it is not that we are only in the premium part of the market. The thing is, right now it seems that VAM is moderated, and it will be in this \$1,000-\$1,200 range. This will not see substantial price decreases, demand would get impacted if you had, for example, VAM at \$800 then you would have substantial price reductions and therefore hopefully an impact on demand, but as of now what normally tends to happen is when inflation has happened, we have seen this in the last two years, there has been some amount of down gradation. People have switched from premium adhesives to more economy adhesives. As it changes the other way around you will see upgradation comeback which has been premiumization and upgradation has been a normal part of our strategy anyway if prices reduce that will come back again.
- Avi Mehta:** A second book keeping question, when you look at this range the normalized range of margins of 20% to 24%, would it be fair to say that should kind of pan out, there is no other headwind as we go into first quarter and should start in the initial part of the year itself or will it take some time to reach that level?
- Bharat Puri:** No, in our view it will. Actually March exit, we are already there. So, starting the first quarter we should be there, we may choose to invest in certain areas in one or two quarters, but at an overall level you will see it from the first of April. In fact, we have seen it on the 31st of March so therefore it may not change.
- Moderator:** Thank you. Next question comes from the line of Jay Doshi from Kotak. Please go ahead.
- Jay Doshi:** I just want to know a little bit more about your foray into decorative paints and in product portfolio expansion, have you sort of built a separate sales and distribution team and at this point of time are you looking at going beyond the distributor model or beyond your current set of reach and the final question is what are your thoughts on marketing strategy for the portfolio?
- Bharat Puri:** See on the first question, remember we already have the sales force in place. In large parts of India, the deepest sales force across all home improvement is already with Pidilite. So, it is not a separate sales force. We may add separate fellows for certain activities in paints, but at an overall level we will use the strength of Pidilite in terms of its distribution reach rather than have a separate sales force. As far as marketing strategy is concerned and I keep saying this, this is not a big time 'we want to do 1,000 crores in one year and therefore we are going to have this Big Bang launch', we will go about it gradually, look at the dealers' reaction and then go step by step. So, just wait and watch.
- Jay Doshi:** So, reasonable to expect that at any point of time it will not have any significant impact on profitability?



- Bharat Puri:** No, I do not see it having any significant impact on profitability because remember we are only doing this in select geographies, understanding then moving on. This is not like we have put up five plants and running a depreciation bill from day one kind of thing. This is from our existing facilities in select geographies, understanding the market, fine tuning our offer, and seeing whether this is a useful road to go up and go down.
- Jay Doshi:** So, my next question is VAM prices have already come down to about \$1,100, so do you have more headroom for gross margin expansion from these levels 46.8 consolidated that you reported this quarter? Are there more benefits still left to reflect?
- Bharat Puri:** Without doubt, as my friend Sandeep just said, average consumption was \$1,300 and the current price is \$1,100 that itself answers the question.
- Jay Doshi:** So, we should expect that inch closer to 50% going into first half and likewise you indicated (+20%) EBITDA margin as well?
- Bharat Puri:** Yes, Jay the 50% number is your number not ours.
- Jay Doshi:** But final one, was there any one time expense or anything in this quarter because usually when I look at QoQ and YoY, the gross margin expansion is meaningful whereas EBITDA margin expansion is lower and when I look at employee as well as other expenses versus volume growth seems a bit high, so was there any one time investment or expenses in this quarter between gross profit and EBITDA?
- Sandeep Batra:** No, there was no onetime expense. I think 1) when you compare quarter-on-quarter, this quarter was like a fully normal quarter, the entire team is out in the market, doing market development and 2) we also stepped-up investments in market facing expenses, be it both direct advertising as well as connect with our users, that got significantly stepped up in the quarter, you would have seen a few of the ads on TV that got aired, the Araldite ad in particular. So, some of the gross margin was ploughed back into market facing initiatives.
- Jay Doshi:** And one final question, you have talked about more innovations and new product launches. Have I missed anything or anything you can provide some commentary and colour?
- Bharat Puri:** Actually we can do a full session on that because in each of our divisions we have one or two new products in different places in different geographies. So, suffice to say that at Pidilite, innovation has always been one of our drivers of growth. Now it is back and so whether it is waterproofing where we have two new products, whether it is maintenance where we have a new product called Fevicol Homefix, whether it is the woodworking division where we have a product called Fevicol Hiper Star, we have got a range of innovations in play and you will see them in the marketplace as we speak and you will see a whole new range also coming through, we have got a whole range of sealants. Roff which is our tiling adhesive now has got a full range. In fact, Roff now has 10 plants across the country. It actually has the best tiling manufacturing



footprint including the leader in tiling. So, we are in a sense always preparing for the future as we keep handling the current.

Moderator: Thank you. Next question comes from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: My questions are on the decorative paint segment itself, so the first question I had was how should we think of the capacity which you have built for this particular segment maybe now or 12 months from now sir if you could give some idea there secondly, of course there is an overlap with respect to the distribution network, but if you could give us some quantification as to what is the target distribution that we are looking at and the third and final bit here is that what is the early feedback you are getting with the launch of these products into the markets?

Bharat Puri: As far as paints is concerned we already had capacity because we were in the coatings business so on and so forth, those of you who cover paints also know that paints is not capital intensive. Paints is not one of those things where you need to put up these mega cement-like plants so if I could call it. So, therefore we have always had the capacity, we understand the technology, we have always made the product. So, without disclosing how much capacity, we have adequate capacity to be able to scale up at a rapid pace if we would choose to. The second thing is, as far as distribution is concerned very simply, please remember we call on more paint outlets than all paint companies except the leaders even today and this is all in India. As we go downtown classes, we have distribution which will probably be amongst the best if not the best. Now therefore we will make sure that we cut the cloth according to our needs and therefore marketing strategies, you would appreciate if I tell you my marketing strategies, my competition will be happier than you are. So, it is suffice to say that whenever Pidilite does something, we do it with a fair amount of thought, we do it differently from everybody else and we do it with a long-term perspective. We are not here to show you one quarter or two quarter numbers, but to see whether this is something that can add to our overall what you guys call total addressable market whether we will be a true home improvement Company where if you want to renovate or build a new home anything to do with the finishing of the home, we will have a product.

Moderator: I will be promoting the next one in line, that is Mr. Purushottam from Vintech Services. Please go ahead.

Purushottam: My first question is why has consolidated revenue in Quarter 4 declined over Quarter 3 any specific reason for that, and my second question is you talk about volume growth in FY24, so what percentage of annual revenue in FY23 was generated through digital channels, what are the digital initiatives that Company has currently embarked and my last question is material cost as a percentage to sales in Quarter 4 is lower compared to Quarter 3, is this repeatable in the current quarter and the next quarter?

Sandeep Batra: The first question was why Q4 is declined over Q3; historically if you look at our numbers for the past many years you will see that our Q4 is generally our smallest quarter in terms of revenue



and then Q3 is generally the biggest quarter and Q1 is also a significant quarter. Q4 is generally smaller. The second question you had was on digital. So, one of the digital initiatives that we have launched is a dealer app through which a dealer can directly place the order on the distributor without having the distributor person call him up and take the order. Revenues from that exceeded Rs. 1,000 crores, in excess of 15% of the sales of Consumer and Bazaar business and your last question was on the trajectory of material cost. We did see a sharp reduction in the fourth quarter sequentially. We do anticipate some slight moderation in the first quarter also going forward, but from what we have seen in terms of our purchase prices, for the last three months they have been stable and given the kind of inventory that we hold, it takes about three months for the benefit of any reduction in cost to kind of reflect them. So, as we look ahead, yes you could see some moderation in the first quarter, but nowhere near what we saw in the fourth quarter.

Moderator: Thank you. Next question comes from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Some of my questions have got answered. What was the impact of Route-to-Market change for Araldite of 1.5% to 2% if I am not mistaken, was it on Consumer and Bazaar domestic revenue?

Bharat Puri: Yes, it was on Consumer and Bazaar domestic revenue, absolutely.

Latika Chopra: And the second bit I wanted to check was that you have decided to phase out the Sargent Art business in US, just trying to understand are there any parts of your businesses that you are evaluating or exploring to review, to divest?

Bharat Puri: We have always said that we would like to be an emerging market multinational and therefore the phasing out of Sargent Art in a sense reflects that we keep looking at various businesses so on and so forth on a consistent basis, but now you would see that we do not have any developed market portfolio left in our international businesses. We have always said we like India to be the cut, copy paste business for all international businesses and that is what we will be working towards.

Latika Chopra: And the last bit was, you were setting up manufacturing units, investing behind a lot of your new portfolio building capabilities there, are we done with large chunk of that in terms of CAPEX or we should expect more in FY24-25, any thoughts on CAPEX plans?

Bharat Puri: See our CAPEX remains at about 3% to 5% of sale. Having said that obviously, we have added 12 plants in the last two years and this quarter alone we have added 3 and in the next quarter we will add another 5. So, having said that, a large part of our growth CAPEX is in place, but given that we are focusing on volume growth and ours is a volume-led product. It will be a normal CAPEX, there will not be any of the areas where you will certainly see our CAPEX go beyond our normal limits.

Latika Chopra: And Mr. Puri the last bit was on talent management you all are operating across multiple categories, and done so well, and we just wanted to understand better what kind of talent hiring or capability buildings has the Company been more focused over the last two, three years?

Bharat Puri: That is a great question. See, one of the things actually we have been on not just for the last two or three years, but actually now for the last five to seven years is, we have clearly said we want to build the culture and then a team that is fairly unique in our sector and we have been on this journey of what we call building a ProNeurial culture which is a mix of Professional and entrepreNeurial. We can capture the capability, system, process, the rigor of a good multinational, but can we have entrepreneurial energy, can we have the risk-taking ability, the agility and speed of a good entrepreneurial Company and we have been on this journey. In fact, if you look at our leadership bench, I will submit in our sectors or actually compared to most consumer companies it will be a very strong bench. Almost all, if not all of my leadership team are people A) Ivy League background and B) Have served in great companies and now been in Pidilite for the fair period of time. We have also extended that across all the levels. So, one of the areas we have focused a lot which does not get talked about is we have changed our talent bench and our talent profile over the last five years fairly dramatically.

Latika Chopra: And does that mean there has been a change in employee incentive structure, any KPI changes there and also, I was curious to understand how are the responsibilities shared between yourself and Mr. Sudhanshu Vats?

Bharat Puri: Answering the first, absolutely yes. Therefore, our incentive system so and so forth obviously reflect what we call our objectives and the Pidilite way of working and what we believe makes Pidilite successful and the incentives actually reflects that, whether it be in the mix of pay and the way people are evaluated and therefore rewarded. As far as Sudhanshu is concerned, Sudhanshu has been handling parts of the business. The best way to put it is, Sudhanshu is being prepared that he has a full view of Pidilite without the pressure of quarter-to-quarter numbers and right now, for example, the consumer product divisions, a lot of the Araldite he handles directly. Slowly and steadily, he will keep handling greater amounts of responsibility so that he gradually eases in rather than with the sudden shock of having to do various things in a short period of time, but since he is here it will be a good for him to also answer that question.

Sudhanshu Vats: So, as Bharat rightly pointed out I think the idea is to gradually ease in, but having said that to answer your question I would say two points. One is that, from the point of view of all businesses I continue to be involved in, in some form or the other and managing independently we are slowly and gradually building on businesses, we started with consumer products, we have then added araldite. I look after our construction chemicals business as I go forward, managing industrial business as well a little bit in the transition. So, I think that is how it is progressing.

Moderator: Thank you. Next question comes from the line of Ritesh Shah from Investec. Please go ahead.



- Ritesh Shah:** First is a generic question. I wanted to understand what percentage of our sales do we actually bundle; say hypothetically if I am a painter and I buy goods versus for x rupees, so, if I come to Pidilite how much of bundling can actually work over here?
- Bharat Puri:** See, that is a very difficult question Ritesh because it differs from geography-to-geography and town class, for example, in the big towns, the mason, the plumber and the painter tend to be separate. As you go down counting classes, he becomes a handyman who does a little bit of each. So, there is no one answer to the question. It will depend on town classes and even different geographies have different practices; some things are done by certain tradesmen in one part of India, they are done by a different person in another part of India. So, very difficult to give you one standard answer for that question.
- Ritesh Shah:** So, I will just flip around the question a little bit. Say if you look at it from a hardware shop standpoint, is there an element of bundling which works and I am referring it more from a distribution standpoint influence apart mason, plumber, painter from the channel standpoint?
- Bharat Puri:** Without any doubt, see for example hardware, paint and as you go down the pop strata and you go to Tier-3, 4 and 5 class towns it becomes hardware, paints and building materials. In some cases, it will become ply, hardware and paint. So, there is an overlap of different channels in different geographies. As a broad sense do not hold me to that, the more larger the town, the more the sub segmentation or disaggregation the smaller the town less developed the more the aggregation.
- Ritesh Shah:** Internally do we try to cross sell products like how is the organization structure, so we have phenomenal brands, each brand does beautifully well independently, but given we are into waterproofing and when you want to put paint along, so how will the system internally work to make that sale happen cross sell happened?
- Bharat Puri:** So, we do it in three ways. The first thing we do obviously is we have a master database which looks at what everybody sells and therefore what we will try and do is make sure that all of the relevant divisions cover that outlet. Secondly, at the dealer level we also have umbrella schemes that are common across Pidilite. So, there is an incentive for him or her to sell Pidilite rather than sell only some products with Pidilite and the third thing is we also run programs with the divisions where we incentivize them to sell products across divisions rather than their own divisions. So, mix of all three things.
- Ritesh Shah:** Just a follow up over here sir, you indicated paints more as a completion of a particular range, sir in past you have maintained that probably we would not venture into this we are already there unless something really innovative. So, sir why this change in heart now because it was always a natural extension for Pidilite to get into the brand and distribution.
- Bharat Puri:** We were obviously exactly saying this to our customers, but we have been having a series of customer meets across the last two years and we have had a very strong demand from our



customers saying that, while you do not need to go head on and say that this the biggest paint Company in the business. For example, a lot of our dealers believe that the best exterior paints products are ours because they do both paint and water proofing and people have been happy selling them. So, it is largely based on customer feedback and customer response where they have been pushing us and then when we went in and looked at certain geographies, we found that this is a growing market with an opportunity for a player who is differentiated and clear on why they want to be playing here.

Ritesh Shah: Sir, just a follow up question on paint. You just indicated that you do not want to go head on, but Pidilite as brand I think have enjoyed leadership position in each of the segments, so how should we look at it given it is Pidilite, you have the distribution, you have brand, you have everything and you would not just get in for the sake of it, you indicated long term strategy is on home improvement, so what is the broader vision, sir?

Bharat Puri: See, the broader vision is to be a full home improvement Company which addresses all needs across home improvement and as you rightly said, Pidilite always believes in doing things differently, let it unfold in the market and we will show it to you once we have done it.

Ritesh Shah: Sir, if I may just squeeze in one more you have indicated on CNBC that there are four states that we ventured into if I heard it right, sir can you detail which were those four States and any specific reason to choose those states, is it because of distribution or proximity to manufacturing facilities?

Bharat Puri: No, we did not indicate four states. Actually in CNBC, I just said two states which was Andhra Pradesh and Telangana which in the sense was the old AP and Orissa, those are the states and very simply we did those states because of proximity to our manufacturing locations.

Ritesh Shah: And basically the Company has multiple units I think 33 plants and I do understand 35 co-makers; what part of this manufacturing footprint is actually fungible for paints as a category like say 10 out of 33 plants we already have the facilities where we can ramp up?

Bharat Puri: A large part of the coatings plants I would say at the broad level do not hold me to the number, but four to six plants in the coating areas would be fungible for paints anytime.

Moderator: Thank you. Next question comes from the line of Keyur from ICICI Prudential Life Insurance. Please go forward.

Keyur: Sir, first question is on the current demand environment as you mentioned that near-term uncertainty. Since the backdrop where real estate and especially new real estate is doing well and expected to do well, so what is holding us back to give guidance, or for the near-term demand?

- Bharat Puri:** See two things. One is Keyur we are clear that now you cannot isolate yourself as an economy from the rest of the world given that the rest of the world has all this uncertainty, there will be some spillover we are seeing, for example, of customers of ours who have export oriented businesses are already suffering. So, one is the uncertainty around the whole geopolitical / recession in the West / muted demand. Therefore, in these places the currency crisis in some of the developing economies is the one uncertainty that we have been talking about. The second is we just want to be clear that rural and semi urban India, the demand is fully back to its traditional levels rather than being the muted that it was besides the fourth quarter of last year pretty much for the last one year.
- Keyur:** Sir, second question is on higher Opex which was partially answered that generally as it was spent on the market picking activity. So, this was one of the activities or this is how it will be since we have higher gross margin, we would continue to invest more than usual to drive growth?
- Bharat Puri:** We will definitely continue to invest more than usual as gross margins come. It may be in some similar activities. Basically as a Company we are investing in five areas. First and foremost, we are investing in Route-to-Market. Secondly, we are investing in marketing, which is basically advertising as well as sales promotion. The third is we are strongly investing in digital, and digital includes e-commerce, it includes our digital initiatives, it includes our analytical initiatives, the fourth is we are investing in innovation and making sure that our innovation machine fires at a much higher rate and of course actually the most important fifth, we are investing in people. So, all five we will keep looking at and making sure as we have always maintained we are a long-term player, we are a marathoner, we are not interested in the 100 meters sprint, and we will keep preparing to make sure that we can keep running the marathon at the right pace.
- Keyur:** And just last one question on the paint side as you mentioned basically the Company wants to complete the portfolio, so we already had this structure of say painting machine and all or the pace at which we want to grow, we would not need that infrastructure, so how we would like to grow our business having do will need painting machine, do we have that asset or how will we go about that?
- Bharat Puri:** We already had the infrastructure and we already had tinting machines because the exterior paints are tint again also tinted. So, we already have the infrastructure in place.
- Keyur:** Any number which are there already in the distribution ballpark, any number if not the exact number?
- Bharat Puri:** Wait and watch, let it reach a number. Right now let us say that we have the infrastructure, let it pan out.
- Moderator:** Thank you. Next question comes from the line of Ritesh Shah from Investec. Please go ahead.



- Ritesh Shah:** Sir, my question is on incremental capital deployment, is there a threshold ROC that we look at as you venture into new product categories?
- Bharat Puri:** Absolutely yes. In each of our areas we are clear that it has to be intrinsically profitable. We may therefore have to have a gross margin which is of acceptable level. The CAPEX proposal has to have an IRR that works for us, and we may choose to invest more and therefore in the initial year does not make the same margin of the product, but we do not enter into any of the commodity side of the value-based side of the market. We are clear that over a long term all our products will meet benchmark IRR and will be intrinsically profitable.
- Ritesh Shah:** Sir any quantification please?
- Bharat Puri:** Again it is different for core businesses, different for growth businesses, different for pioneer businesses, but suffice to say that it is far higher more than double the cost of capital.
- Ritesh Shah:** And sir secondly on the demand side can you please dissect the trends that you are looking at semi urban, rural versus urban?
- Bharat Puri:** See as far as semi urban and rural is concerned what we have seen for the first time in Quarter 4 is that demand was actually better than it was in urban. Otherwise, the last three quarters before that urban demand was outpacing rural and semi urban and therefore, we are saying we are hopeful and lets see if this persists for the next two quarters, then we know that we are back to normal, rural and semi urban demand.
- Ritesh Shah:** Sir, is there any particular variable which resulted to this swing or is it just the main effect on inflation is actually getting captured and that is the reason why the swing in demand or improvement in demand?
- Bharat Puri:** Very difficult to say, but I think some money has gone into people's homes. Remember in the rural areas whenever money comes in, it tends to go either into construction, into weddings, into discretionary spends, it appears that again this is a guess. This is not based on real data, but it appears that money in the hands of the consumer is slowly increasing in rural areas.
- Ritesh Shah:** And sir just last question on El Nino, does it impact the sales trajectory of the Company like is there any correlation both on the C&B side as well as on the B2B side?
- Bharat Puri:** See we have done this analysis, to be fair what it tends to have a greater impact on morale and the overall feel-good factor rather than on hard sales. We are not able to correlate hard on El Nino years they tend to be a little harder especially in rural and semi urban, but when we look at the data it does not give you the stark difference.
- Moderator:** Thank you. Next question comes from the line of Sheela Rathi from Morgan Stanley. Please go ahead.



- Sheela Rathi:** One question which I had was is that I mean did I hear you correctly when you said that paint companies are also present in all the four construction chemical categories, is it something which has changed recently because if I remember correctly in the past you have said two out of four categories is where the paint companies have been focusing on?
- Bharat Puri:** No. See if you are saying segments normally paint companies tend to focus on the paint outlets, the paint outlets tend to focus on renovation rather than on new construction; that has not changed. Some of them have been trying to venture into the projects area so on so forth, but largely if I was to say the paint companies remain focused on paint and what I would call the large renovation segment.
- Sheela Rathi:** No big change versus the past, right it is still the same?
- Bharat Puri:** The only thing that has changed is, now some of them are venturing into the projects areas and trying to spread their wings, but that is expected that also been going on for some time, it is not something we are doing in the last one year, they have been doing it probably for the last three to four years.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Sandeep Batra:** No closing comments but thank you very much to everybody on the call for your continued interest in Pidilite and we will connect again after the 1st Quarter Results. Thank you, have a good day.
- Moderator:** Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us.
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(This document has been edited to improve readability)