

16th August, 2021

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14th floor, P. J. Tower,
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,
Bandra (E),
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 12th August, 2021.

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



Puneet Bansal
Company Secretary

Encl: as above

**“Pidilite Industries Limited
Q1FY2022 Earnings Conference Call”**

August 12, 2021

ANALYST: MR. TEJASH SHAH – SPARK CAPITAL

**MANAGEMENT: MR. BHARAT PURI – MANAGING DIRECTOR -
PIDILITE INDUSTRIES LIMITED
MR. PRADIP MENON – CHIEF FINANCIAL OFFICER –
PIDILITE INDUSTRIES LIMITED**

Pidilite Industries Limited
August 12, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q1 FY2022 Earnings Conference Call hosted by Spark Capital Advisors India Pvt Ltd. 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 over to Mr. Tejash Shah from Spark Capital. Thank you and over to you Sir!

Tejash Shah: On behalf of Spark Capital, I welcome you all to Pidilite Industries Q1 FY '22 Earnings Call. From Pidilite Industries, we have with us today, Mr. Bharat Puri, Managing Director; and Mr. Pradip Menon, CFO, to take us through the results. I will now hand over the call to Mr. Menon for his opening remarks, post which, we can open the floor for Q&A. Over to you, Mr. Menon.

Pradip Menon: Thank you, Tejash. I will start with my opening statement. Despite a challenging business environment, we have delivered strong broad-based sales as well as earnings growth across businesses and geographies on previous year's low base. The second wave of COVID-19 disrupted business continuity from second half of April '21 with gradual closure across the country for May '21 and part of June. We have seen demand recovery since mid-June, post the lockdown, with most markets returning to normalcy across town classes and geographies. While Consumer and Bazaar businesses, (C&B), has witnessed recovery led by adhesive, construction chemicals and DIY portfolio, recovery in business-to-business, (B2B), is on account of resurgence in industrial activity.

Now I will begin with a summary of the financial performance for the quarter ended 30th June '21. On a consolidated basis, net sales at INR 1,928 crores for the quarter grew by 120.7%. Excluding Pidilite Adhesives Private Limited, (PAPL), it grew by 112.5%. This was led by 111.7% growth in C&B segment. Excluding PAPL, it was 101.5% growth, and 156.1% growth in B2B segment. Gross margins have contracted on account of sharp escalation in input costs, partially mitigated through pricing taken across categories in a range of 4% to 6% covering 75% of inflation. Material cost as a percentage to net sales is higher by 437 basis points versus same quarter last year and 182 basis points versus sequential quarter. EBITDA before non-operating income grew by 428.8%, excluding PAPL 395.9%. Profit before tax and exceptional items grew by 814.4%, excluding PAPL 745.3%.

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Now moving on to stand-alone financial performance. Stand-alone net sales at INR 1,617 crores grew by 110.6% with underlying sales volume and mix growth of 104.6%. This was driven by growth of 102.8% in sales volume and mix of C&B and 113.1% in sales volume and mix of B2B. Our key raw material, Vinyl Acetate Monomer, VAM, procurement rates had increased over the months to \$2,000 per metric ton in April 2021. VAM has now started softening with a current price between \$1,400 to \$1,500 per metric ton, still higher than previous financial year. Quarter 1 VAM consumption rate at \$1,610 per metric ton is against Quarter 1 '21 of \$890 per metric ton. Material cost as a percentage to net sales is higher by 529 basis points over same quarter last year and 275 basis points versus sequential quarter. EBITDA before non-operating income at INR 308 crores grew by 219% over the same quarter last year. Profit before tax and exceptional items at INR 355 crores grew by 361% over the same quarter last year. On a like-to-like basis, excluding dividend from subsidiaries, PBT grew by 236%. Overseas subsidiaries continued its positive momentum and reported high double-digit constant currency revenue growth as well as strong earnings growth. Our domestic subsidiaries suffered as a consequence of the lockdown in May. However, a sustained recovery in demand is seen from June onwards. Input costs remain a significant challenge. We see these as peaking in the current quarter, and then gradually softening over the second half of the year. Going forward, we remain cautiously optimistic on a sustained demand recovery. Our focus remains on delivering volume-led, competitive, and profitable growth as well as the health and safety of our ecosystems. That concludes our opening statement, and I would now hand it back to the host for the Q&A session

Moderator:

The first question is from the line of Abneesh Roy from Edelweiss

Abneesh Roy:

My first question is on PAPL. When I compare the EBITDA margins for PAPL for Q4 versus Q1, so sequentially, I am not getting much of a difference. It is largely in 31.2% to 31.8%, so fairly stable. But when I see the overall business, in terms of quarter-on-quarter PAPL margin is much higher. So, if you could explain the difference. I understand PAPL is the more premium and the consumer part of the business. But is that the only reason that the consolidated gets diluted by the B2B and overall international part? So, some color on PAPL why it is much more consistent in terms of margins?

Pradip Menon:

So as far as PAPL is concerned, obviously, as we said, in terms of response to the various input prices or changes in input costs, we have taken appropriate actions in terms of pricing,

costs and so on and so forth. So, some of that you are seeing in the results of the company. Are you talking about the rest of the B2B segment in the subsidiaries or you're talking about the consolidated picture, second part of the question?

Abneesh Roy: The consolidated.

Pradip Menon: So, on the consolidated, there are other subsidiaries in our portfolio. Some of them are much more exposed to the real estate where the recovery and the margins have been under greater pressure. So that is the reason why you are seeing a distinction between PAPL and the remaining part of the subsidiary portfolio.

Abneesh Roy: But when I compare, say, like-to-like PAPL to your consumer adhesive part of the business, quarter-on-quarter, will that also behave similar? So, it has sustained in terms of margin

Bharat Puri: Actually, the rest of the business is a composite of many products, and it therefore depends on the mix and the raw material movement of that mix. As far as PAPL is concerned, it's a simple epoxy resin and, therefore, it largely is dependent on the epoxy resin. So, the simple answer is it may or may not move in conjunction with the adhesive portfolio because the principal raw material is not greatly used in the rest of Pidilite.

Abneesh Roy: Sure. When I asked you last time on the real estate recovery, you were a bit more cautious. But when I check with my real estate analysts or see the comments of the real estate players, they are very positive and many of them see this as a multiyear bull run. Now time has gone and we have gone through the wave 2 pandemic, which could have worsened the sentiment. What would be your take on real estate recovery? Are you getting now a bit more confident versus last time?

Bharat Puri: On real estate, there is no doubt about the fact that there is a substantial decrease in terms of the inventory that builders, the organized real estate was holding, which was not moving earlier and has moved and, therefore, prices have also moved up. So clearly there is a good amount of clearance of inventory. However, if you look at, for example, you and me both live in Mumbai. Normally, in the real estate boom times, the first 2 pages of any newspaper would be just the new projects being launched on real estate, right? I don't think we have reached that stage. I hope you are right that it is the beginning because real estate has not gone through just COVID. Even the 3 to 4 years before COVID, it was suffering. And

therefore, in many ways, hopefully, they had come off the bottom and they are in the takeoff stage. But let's wait for the next 6 months and see.

Abneesh Roy:

Sure. So, when I see your brands in your presentation, my question is on some of those, which is not discussed that much. So, if you could tell us on these 3 specific brands - Steelgrip, Motomax, Terminator, last few years and maybe the outlook also, how is the situation here?

Bharat Puri:

See, as far as Pidilite is concerned, you know that we have an approach where we have a large number of brands for specific uses, some of these maybe niche uses. Steelgrip is, of course, a popular brand. It is an electrical insulation tape and is a substantial part of our portfolio. Terminator is a growing one because the problem of white ants is a major problem, and it has been a growth brand for us for a number of times. It is not a very large brand, but it is steady. I mean, it's not a small brand either. And as far as Motomax, again is concerned, good steady brand. The whole auto area for us is currently small, but clearly an area of potential because auto is booming. I mean we are the world's largest population of 2-wheelers and, therefore, auto booming is something we're looking at. And we are finding actually Motomax, and with a lot of other brands, a lot of success coming via B2C, which is coming via the e-commerce route. And today, for example, in the last 3 months, the largest selling drain declogger on Amazon is not Drainex, which is the company leader, but it's actually a Pidilite product called D-Klog. Now like this, we have been working with a set of partners and so on and so forth. And a lot of these brands we are looking at has also B2C. I mean, just to give you an overall perspective, what we did in e-commerce in the full year in 2019/2020, we are now doing in a single month, for example, in the month of July in this year. So, we have really upped our lead there. It's a long runway. By no means are we saying that we are declaring success, but we are absolutely going in the right direction.

Abneesh Roy:

Sir, just one follow-up. Drainex is the market leader. So how come your product has done better on e-commerce? Is it any specific price differential that is driving?

Bharat Puri:

I think it is a mix of an appropriate product with good marketing and being able to understand consumer needs and push and work partner with the customer and taking it forward. And the good thing is when customers use the product, they come back and ask for it. So, in fact, in the last 3 months, it's been the #1 seller on Amazon.

- Moderator:** The next question is from the line of Avi Mehta from Macquarie
- Avi Mehta:** I had 3 questions. First was essentially on the input cost. Now you said at the start of the comment that VAM has moderated from the highs of \$2,000 to almost about \$ 1,400, \$ 1,500. But then you are saying that we expect VAM to peak in Q2. I'm just still confused when norm is already moderating, why do you say that it will peak in Q2?
- Bharat Puri:** Very simple. What we buy in Q1, we will consume in Q2.
- Avi Mehta:** Okay. That is clarified. So, you meant your own, but is there a further moderation that you are expecting from this level? Or if you could give us something.
- Bharat Puri:** We are definitely expecting a further moderation from this level. But currently, world over, global chemical prices are displaying such volatility, so we are keeping our fingers crossed. But yes, we don't see \$1,400, \$1,500 as a sustainable level. Last year at one point in time, it was even \$700. It won't come back to that. But we do believe that it will moderate further from the \$1,500 levels.
- Avi Mehta:** Okay, sir. Last year, I think \$1,000 was where you were you know most of the time, I think. That's what you would mean...
- Bharat Puri:** \$900 yes, but if I look at year before, Pradip, what would year before the average be?
- Pradip Menon:** It would be \$900, Bharat. So, \$890, \$900
- Bharat Puri:** 2019-20 also?
- Pradip Menon:** Yes, yes. Close to \$900.
- Bharat Puri:** So, I would say, yes. I think it won't come back to \$900 quickly, but I do hope that between \$1,000 and \$1,200 is where it returns to.
- Avi Mehta:** Okay, sir. So that is how you kind of see this. Sir, the second bit is, again, linked to the margin only, continuing on that. Even in the first quarter, you had indicated you had taken 4% to 6% odd price increase. It covered 75% of the input cost inflation. Now that time the

cost was at \$2,000. So, would it be fair to say now that the input cost itself has come out, we are almost covered to the entire basket and we do not need any further price increases?

Bharat Puri: On VAM, we may be covered. By the end of quarter 2, we will be covered as far as VAM is concerned. And some of the other raw materials, we may not be, we are studying it closely. But our hope is we clearly want volume growth, and we don't want to constrain our growth because we find price elasticity beyond a certain level, then it impacts the consumer. So, we are keeping a close watch. If prices continue to moderate, we will not need any further price. And yes, we would have covered for the whole time by the time quarter 2 goes.

Avi Mehta: Okay. And sir, on the demand recovery side, I mean, it seems quite healthy. Is the cautious optimism because of the concerns on third wave or is there anything else that we are seeing? And related, could you give us a sense, has the strength sustained in the last 2 months, July, August?

Bharat Puri: So yes, the trend has been extremely positive ever since the lockdowns have got lifted since the middle of June and has sustained for July and whatever is the limited period of August up to now. Yes, the cautious optimism is we are keeping our fingers crossed for this famous third wave. We are hoping it doesn't happen at all. And if it does unfortunately happen, it doesn't lead to widespread lockdown. Therefore, the cautious optimism. Otherwise, we do believe that there is a certain amount of pent-up demand. And as the economy recovers, you know that we correlate very well to GDP. As GDP comes back, I think we will see far better demand conditions.

Avi Mehta: And this is across both the segments. I mean in the Consumer and Bazaar as well, in both B2B segments or this is water proofing?

Bharat Puri: Across. Actually, this is broad-based. To be fair, this is across the portfolio very broad-based and actually across even geography. Things like the metros have come back strongly now in the first quarter. Of course, they went down the most. The great thing is we had spoken last time about us investing substantially in rural and small towns. Now despite a 45-day closure in the first quarter, our rural and small town have obviously grown over last year, but it is actually even at the same level as the year before, which suggests that when you have a normal quarter, we will again come back to substantial growth in small towns and rural. So, at an overall level, it is broad-based across geographies, across categories. And actually, what you would also like, Avi, I think is, international is actually this time

now leading the growth rather than a lot of times, you would ask, what about international? You would see that international has grown not only over last year, but also over 2019-20, substantially. So overall, we have got our basic strategy in place internationally. And again, there also, whether it is our neighboring countries of Bangladesh, Sri Lanka, Nepal, whether it is Middle East, Africa, so overall, the international markets are actually outperforming the domestic market.

Avi Mehta: On that front, the margin has no one-off, right, in the international? Sorry, that was the only clarification.

Bharat Puri: What was the question, are there any one-offs in the international margin?

Avi Mehta: Yes, sir, because they have kind of reached a new high, if I may say, or back to their strength to sustain. So, I am assuming there is no one-off over there. Just wanted to confirm.

Pradip Menon: No, no, there are no one-offs.

Moderator: The next question is from the line of Tejash Shah from Spark Capital

Tejash Shah: A couple of questions, in your presentation, you spoke that by the end of June, you are seeing some signs of recovery. So, if you can slice and dice this recovery in terms of rural, urban? And also, the trend of premiumization post the second wave, how it is panning out?

Bharat Puri: Very simply Tejash, what is happening is because the metros are springing back, therefore, premiumization normally leads from metro and Tier 1 towns, which have been growing fast. So, you are seeing that happen. As I said, the lovely thing that we are seeing, the good thing is that rural and semi-urban, which had a very strong year last year, are sustaining their growth rates despite that strong last year. So, it is broad-based growth, and it is also broad-based across adhesives, waterproofing is growing very well. DIY is growing well, and you have seen that the B2B business is also growing well.

Tejash Shah: Okay. And sir, the observation on premiumization side?

Bharat Puri: Premiumization normally is led by the metros and Tier 1 towns, and we are seeing that come back as the fastest growing; because they also, I must say, grew the fastest last year. The fastest-growing geographic segment from a town perspective are the metros. Metros tend to

be where the premium products are consumed. So obviously, over last year, you will see a much better premiumization trend.

Tejash Shah: Sure. And sir, last one on distribution expansion. So, we had a very specific program to increase our distribution footprint in Tier 2, Tier 3, and even rural areas. So, any update on the scheme? And did it get derailed because of second wave that came suddenly?

Bharat Puri: Actually, yes, it did get handicapped because this time, rural and semi-urban was hit. But over the last 15 months, we have longer-term plans where we believe that we have a lot more runway still left in rural and small-town India. And therefore, we set up a separate division called Emerging India, which actually looks after that. Forget just the first quarter, if I look at the last 15 months, if you look at any parameters of infrastructure, the number of sub-stockists that we have, the number of key dealers that we have, the number of our own people that we have, while other people have been cutting back, we have actually added almost 100 people in this area because we see the potential, in both towns as well as villages. We also have a partnership with Hindustan Unilever, which we are experimenting. We're using their Shakti ammas for Bihar and seeing that as a multiplier, which takes us even to villages below 3,000 and 2,000. So, at an overall level, if there is one area where we have added substantial infrastructure and made substantial gains, it would definitely be rural and semi-urban India.

Moderator: The next question is from the line of Chirag Lodaya from Valuequest.

Chirag Lodaya: Sir, my first question was on overall real estate revival. So, from overall building material companies, we are hearing that they are quite optimistic on real state revival going ahead. I just wanted your view how you look at this trend?

Bharat Puri: Definitely, we are also quite optimistic about real estate now reviving because, as you know, real estate has suffered not only during COVID, but even before COVID. There is no doubt about the fact that when we speak to a lot of our key customers, they have seen a lot of inventory liquidation of their existing projects. All of us know that there is a massive housing stock shortage, both at the affordable and the upper middle-class level in India. So, will it lead to a new real estate boom? Frankly, your guess is as good as mine, but we definitely hope so.

Chirag Lodaya: Okay. Sir, secondly, on pricing, we have seen commodity prices going up sharply. And in this quarter also, we have seen impact on gross margins. So, going ahead, how one should look at the gross margin line item? And are we able to pass on complete commodity inflation? Or it is still different?

Bharat Puri: We have seen some unprecedented cost inflation. We have passed 75% of this to consumer. We consciously took a call believing that because this was not a long-term secular trend, this was not because of demand conditions, but because of supply constraints, we believe that a lot of these raw material prices would moderate in quarters 2, 3 and 4. We have already started seeing moderation happening. Our belief is by the time we are in quarter 3 and definitely in quarter 4, prices would have moderated for our gross margins to come back to the levels that we deem acceptable.

Chirag Lodaya: And just sir, lastly, on overall competitive intensity in construction chemical space, how do you look at that?

Bharat Puri: Given our leadership position, be it adhesives, be it construction chemicals, the paint companies, for example, have been in construction chemicals now for over 5 to 10 years. So, it is not new competition, we are used to this competition. The fact of the matter is that actually, this competition is also leading to the market expanding faster. As all of you know, waterproofing as a category has at best about 40% penetration, which means 4 out of 10 new homes that are built actually do proper waterproofing. Hopefully, with the entrance of new players, etc., if this 4 becomes 6, we gain. We are clear that our leadership position has to be maintained by a strong brand, great innovation and then great sales and distribution. As far as we are concerned, even now, waterproofing remains one of our fastest-growing categories. So, our belief is the market is expanding, newer players are coming in. But in no way are we losing market share. In fact, we believe we would have probably gained a little market share.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: In gross margins, we would kind of start normalizing towards the earlier levels. We have moved our cost base also relatively to a lower level as a percentage of sales. And as recovery pans out, that should also pan out. In that sense, would it be fair to now look at EBITDA margins moving ahead of the earlier levels of 20%, 24% that you had highlighted in the last conference call, at least in the near term?

Bharat Puri: Too early to say, but our belief is we would actually reinvest for stronger volume growth, both in the current categories as well as the adjacencies. So, if you gave me a choice between taking EBITDA margin beyond 24%, I would say, "Listen, I'd rather use the money to take my growth rates higher." because that volume growth sustains and then gives you far greater leverage over a period of time. Early to say, let's see how the raw material situation evolves. But we would be very comfortable because we are also very clear that we would like to maintain the price. Our brand gets a premium of between 15% and 20% vis-a-vis competition. We don't want it to go beyond that. So therefore, if raw material prices soften beyond what we expect, we would actually pass off in terms of price, etc., but again, focus on volume growth.

Avi Mehta: So yes, I take that point. But where I was coming from is that premium has moderated in the last few quarters which is why I felt that you had leeway both ways, that's why the question

Bharat Puri: Actually, the premium has not moderated because, for all of the other fellows you can't price closer to Fevicol and hope that you will sell so on and so forth. So, the others are also suffering. And therefore, it isn't that they have raised prices and we haven't. We raised to 75%, they also raised to 75%.

Avi Mehta: Okay. Fair enough. Sir, the second bit was essentially just trying to understand your thought process on building the next management level. We recently saw the appointment of Mr. Vats. Now he has 4 years, so he'll be with you. Could you give us a sense on what is the broad plan, on a going forward basis? Is it going to be more as someone who will be working with you for the near term? Could you just give us a sense on what is the thought process on introducing into various categories? Anything to kind of introduce him because he doesn't know this, he has not been in the Pidilite system, but you obviously are there to kind of explain to him. If you could just give us a sense on the process forward?

Bharat Puri: As an organization you know, that Pidilite is a forward-looking, and we forward plan the same basis. And it was our belief that if you look at our number of subsidiaries, if you look at our number of verticals, a pioneer model by definition is going to be far more complex than mono category companies or 2 category companies. We are a company that now has over 30 verticals. Now therefore, we felt that it is important for us to strengthen the management team, make sure that we have enough bench strength available. And we do that without putting any pressure on individuals, so that you get enough time to learn,

understand the company take over little parts of it. Sudhanshu has wonderful heritage. He comes from a really good pedigree. And for example, consumer products are something he understands well. He has also been in the Castrol, which is similar to our Bazaar environment. So therefore, it is important that we give him enough time to settle down, and we give him responsibility so that he gets his arms around and understands the organization rather than he is having very limited time and, therefore, gets prone to doing things quickly rather than having understood the whole thing. So, it is part of our longer-term plan. And you know that over the last 10 years, we have substantially strengthened our leadership bench. In fact, most of our leaders are now blue-chip leaders. And this is, again, part of that plan where we are building the Pidilite of tomorrow as we continue to deliver on today.

Moderator:

The next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra:

My question was on construction chemicals. I did hear you talking about the good prospects here. But my question was more on the profitability of this segment, considering now you have multiple players here. How is that stacking against your core adhesives portfolio? Is the focus a lot more on growth? And do you see a risk on the margin front here, both from maybe sustaining current level of margins or expanding that?

Bharat Puri:

At Pidilite, what we do is at a gross margin level, the difference between adhesives and construction chemicals is not substantial. But because we see construction chemicals is a strong growth business, which we would like to grow it 2 to 5 times of GDP, obviously, from both marketing, sales and distribution, a people perspective, it is an invest business. So, while its EBITDA may be lower, over the period of time, we believe that the growth rates and now this period may be 3, 5 or 10 years. We believe that it will compensate vis-a-vis the much higher growth rates. So as for competition, we obviously already had anticipated and have seen and have been seeing. Our focus is clear, keep creating strong brands, keep delivering outstanding customer service and keep going deeper and deeper into both rural and semi-urban India. And there is a lot of runway still for construction chemicals. So, from a margin perspective, gross margin similar to any of our businesses EBITDA largely because we would invest more in it from people and marketing perspective, it may be lower, but that's intentional. Once it achieves a certain price and maturity, obviously, then it becomes similar to the other businesses.

Latika Chopra:

Sure. This is useful. And can I just check on your FY '22 Capex plans, anything meaningful to keep in mind here?

Bharat Puri: Our Capex levels remain at similar levels. We normally spend between 4% to 6% of our turnover on Capex. It may be at the higher end because as we have now learned from the pandemic, we need a far more resilient supply chain. As we speak, we have 12 new facilities, brownfield and greenfield being set up in various parts of the country. But the Capex is not substantially greater or rather it still remains in that same range. What we have done is we've used the pandemic to reassess and say how we want our supply chain to be set up, both from a production facility as well as the warehousing level. And we are now pretty much by the end of this financial year, we will be ready for the next phase of growth.

Latika Chopra: Sure. The Araldite acquisition is now done. It is nicely fitted in your portfolio. Obviously, there is more scope there. But any thoughts on incremental M&A, how aggressive you could be on that front? Any particular segment that you will be more focused on, on that side?

Bharat Puri: We are clear that Araldite is a growth business for us. We now slowly got our understanding of the business. It's also a business that has seen high cost of raw materials, but that is far from the course. But you would have already seen in the 3 quarters that we've handled the business; we are beating the acquisition case safely. But we still believe that there is a long runway for growth. So, we shall see how Araldite becomes another one of Pidilite's, what I would call, Power Brand. We believe it is right up there and it has the opportunity to be a much stronger and bigger brand than it is, not only also in India, but we've also launched it in Bangladesh and Nepal, we are looking at other geographies. So, we see a lot of runway for Araldite.

Latika Chopra: Yes sure. I was checking on your appetite for more acquisitions actually. Is that something, which will remain on a priority agenda for you?

Bharat Puri: We are very clear. We have very clear agenda, both organically and inorganically. You know our agenda around core, growth, and pioneer categories. And if we find opportunities in any of these areas, we will always be open, while, obviously, we are pushing organically, if we find any inorganic opportunities, we will always be open. We have got the management bench strength and the bench now as we have shown in our recent acquisitions, we have got the ability to manage and lead the acquisition case on each of our acquisitions.

Moderator: The next question is from the line of Ritesh Shah from Investec

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Ritesh Shah: First is, PAPL margins are quite solid. It was last quarter, this quarter as well. Just wanted to understand, is it possible if you can give some color on pro forma basis year-on-year revenue growth over here? And again, any color on the industry growth rate, specifically for PAPL?

Bharat Puri: See, the industry growth rate difficult to say. But as far as PAPL is concerned, we are clear that the Araldite brand has a significant runway for growth, both from an innovation perspective as well as our sales and distribution reach perspective. You would have already seen in the last 3 quarters. Right now, I would not want to go into comparable, but take the last quarter 1. Now despite being closed for 45 days, we have done a substantial amount of sales. South, which is actually a strong reason for Araldite, has been closed for even longer period. So, you can see that in normal times, Araldite will move to the next level. It is going to be a growth brand for us, and it will be one of Pidilite's power brands going forward.

Ritesh Shah: Sir, just trying to understand from an industry growth rates and market share, if it's possible to provide some color?

Bharat Puri: The market growth rate, if I was to add Araldite and the Pidilite brands that exist, which is Fevitite and Bluefix, we would be somewhere between 65% and 70% of the market in this segment, which is stone, marble, what are called epoxy adhesives. And the far #2 would be Astral Bondtite, which will be about 20% to 25%, and everybody else would be the balance.

Ritesh Shah: Sir, my second question is, we understand based on my readings that there is initiation of antidumping duties, specifically on silicone sealants. I am a bit new to the space, so pardon me for my ignorance. Just wanted to understand what the level of backward integration supply chain is, given we have silicone exposure in the marketplace. So, is it a positive for us or it's a negative for us? How should one understand this?

Bharat Puri: Remember, silicone sealants, actually the base raw materials of silicone sealants is pretty much made by just 3 or 4 fellows across the world, whether it is the Dow, whether it's the Wacker. So, I am not clear on the anti-dumping duty, but the issue with silicone is right now the other way around. Prices have really gone up in the last 12 months. So, I am not sure where you got this information on the anti-dumping duty. Most of the Indian manufacturers' buy the raw material and compound and then make the product where we are making it. Silicone sealants tend to be the base sealants in any sealant's portfolio. You then have acrylics and hybrids. So, over a period of time, again, if you want to be a long-

term player in sealants, you need the full range of silicone, acetoxies, acrylics and then hybrids. And the real margins, obviously, come from the premium sealants.

Ritesh Shah: Right. So, sir, my question is, do we input the base silicone what we sell in the marketplace because to my limited understanding, I understand that a lot of it is imported, repackaged into smaller sachets and sold.

Bharat Puri: There is no silicone manufacturers in India. Everything that anybody makes, the base silicone is imported.

Ritesh Shah: Okay. So, I don't know. So, to my understanding, I think there's a company called HP, Astral.

Bharat Puri: No, no. HP, Astral, all of them only compound the product. Remember, the base silicone raw material is imported even by them. And HP is big actually in solvent cements, which is a different category. But all of this is the base raw material. We don't have large enough chemical plants. We need chemical plants, which are of a very different scale and size. We don't have those in India currently.

Ritesh Shah: Okay. So, if at all, anything, it is an industry-wide cost curve increase, if at all, any anti-dumping duty?

Bharat Puri: Yes, absolutely. Yes, right.

Ritesh Shah: Right. Sir, second question, similar lines. Again, there are anti-dumping investigations, which are going on PTFE, which I think could actually benefit Steelgrip or allied products that we have in that basket. Any thoughts over here?

Bharat Puri: Both silicone sealants, PTFE, these are not very large categories for any of us. Therefore, while yes, it may give you a small benefit, it is not something that is substantially going to move the needle for any of us. If it does happen, yes, we have the PTFE manufacturing ability in India, we manufacture it ourselves, so it will help us. But these are not products which are over INR 500 crores or anywhere near.

Ritesh Shah: Sure. And sir, my last question. If I look at our stand-alone revenues and if I strip out ICA, CIPY and Nina and also PAPL, and if I look at on a 2-year CAGR revenue growth basis,

the decline is far steep. So just wanted to have your thoughts. Are you happy or is it something which is the natural course of decline because the market conditions are like that? And I wanted to have your thoughts specifically on the PVA side of things. Just wanted to have some comfort that we are not losing market share on the retail side of the business or to put it the other way around, is it that the SBR and joinery business, is it growing at a faster rate as compared to the retail business?

Bharat Puri:

Good question. See, let me tell you very clearly, I do not think the 2 years is a fair comparison for the simple reason that, obviously, COVID hit you hard last year, and it again hit you in the first quarter of this year. So, you do not have a long enough base. But if you saw the year before that, our fastest-growing business is PVA. In these 15 months of COVID, it is our belief that in our PVA businesses, we have actually gained market share, not lost but gained. Actually, a lot of the regional and other players have suffered and suffered hard. Knowing of the competitive geographies, our growth rates are higher in the places where competition had a presence. So, it is clear that we've gained market share. As far as joineries and this is concerned, it is actually growing slower than even we thought. Please remember, we are the leader there also, with our Jowat tie-up, and we also have close to between 60% and 70% share of that market. Actually, because a large number of joineries are medium and small scale, in this COVID period, they have suffered far more than the average small carpenter. So, this business, the organized business is actually not gaining from the unorganized, but I would say the unorganized in the last 15 months has probably gained the other way around because small fellows have been able to bounce back, the larger joineries have taken a lot more time.

Ritesh Shah:

Sure. So, sir, just to conclude, should one assume that the retail growth rate has been higher than joinery, SBR put together?

Bharat Puri:

In the COVID period, definitely so.

Moderator:

The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar:

So, my question is on your international subsidiaries. We have seen good recovery Y-o-Y in Q1FY22. I believe this is mainly because the base was also low. But if we consider the Q3, Q4, the recovery was good. But now cases are coming back in some of the international markets, the COVID cases, so considering that have you seen any kind of weakness in some of the markets, international markets?

Bharat Puri: That is a good question. Remember on international, we had recast our strategy about 3 and half, 4 years back and focused. Actually, if you look at our international growth, we are growing substantially even over the pre-COVID period. So, it has nothing to do with low bases. The international markets were not as impacted as India was in the first place. And when we bounced back, we have actually grown over the pre-COVID period. There are certain geographies that have had issues as far as cases is concerned, notably Bangladesh. Brazil, which last year had a massive number of cases, actually grew well last year, which is quite a dichotomy. This year, they have withdrawn some of the cash coupons that we were giving to their customers, so Brazil is a little softer. But at an overall level, if you look at our overall international operations, whether it is our neighboring countries, whether it is emerging, Middle East, we were doing extremely well in Africa, which seems to be even are now lesser impacted. So, over a longer-term period, actually, international over a 2-year period is outperforming the domestic market by a long business.

Kaustubh Pawaskar: My second question is on your domestic subsidiaries like Nina and ICA Pidilite, we have seen good recovery. We have also indicated in the call that metros are recovering, and we are seeing good growth in the key urban towns also. So, some of these domestic subsidiaries, will the performance sustain, better performance? Or how we should look into this, sir?

Bharat Puri: As long as we do not have further lockdowns, I think they will sustain and actually get better because they have suffered in the first quarter. So, if they get a free run without any closures to 3 and 6 months, you will actually see their performance even improve further

Moderator: The next question is from the line of Jaykumar Doshi from Kotak.

Jaykumar Doshi: I would want to understand your strategy for the arts and crafts business, because if I were to think of the last 10, 15 years, in mid-2000s, you did a few acquisitions to expand the portfolio and scale up. In the recent years, I have not seen any inorganic sort of acquisition to scale up that portfolio. And it seems to me that, that portfolio is not growing any faster than the company, whereas the opportunity, in my view, should be really big. So, is it as important a portfolio for Pidilite, as we call and as construction chemicals? And if you can give us some thoughts on where do you see this business in the next 3 to 5 years?

Bharat Puri: Let me tell you that this business actually has suffered the most during the COVID period. Remember, art and craft, the single largest consumer is children. And if children are sitting

at home, then if the school is able to cover their basic - in 3 hours time and the syllabus like projects and so on, go through the window. So really, the school closure; in fact, if you look at all stationary companies, it doesn't matter whether it is an ITC or it's a Camel, they have all suffered greatly over the last 15 months because of COVID. Having said that, if you look at over a longer period of time, we definitely are the clear leader in the segments we operate, which is art and craft. With the closure of both schools and offices, this has got hit, and we therefore had time to, in a sense, recraft our strategy. We are focusing a lot more now on adult art. We are focusing a lot more on fine art. So, a lot of innovation, some have already come into the market, you will see some more coming. We see this as a growth area for us going into the future. And organically as well as if we find the right inorganic opportunities in a country that has 600 million children, there can be no doubt about the fact that over a period of time in normal circumstances, this will be an attractive business, and that is the philosophy with which we address the business.

Jaykumar Doshi: Are there any adjacent segments within the stationery art and craft space that you think fits well within your scheme of things, is a good fit and can be a scalable opportunity?

Bharat Puri: There are a large number of segments. The thing is they do not fit into our pioneer model. We don't want to do the usual pencils and sharpeners and so on and so forth, because that is the commodity end of the market. But just wait for, hopefully, normalcy in 3, 6 months, I don't know, your guess is as good as mine, to return and you will see that we've used the pandemic period to recraft and be ready for the next phase.

Moderator: The next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah: One follow-up question on construction chemicals. So, the last 2, 3 quarters, we are picking up from some paint companies that their place in construction chemical as undercoat, waterproofing in particular. And they are also tying up their paint warranty with construction chemical performance. So, does it dilute our offering or our standing in market as a stand-alone construction chemical product, especially in the remedial part of the business?

Bharat Puri: Remember, in waterproofing, there are 3 large segments. There is what we call organized real estate so commercial store factory, which are the large buildings in a BKC or in the Delhi's Connaught Place or the new World Trade Center, etc. That is one segment. The second segment is individual housing, which is normally minus the metros in all other

Indian towns, which is IHBs, as we call them. And the third is repair and renovation. Remember, most of the paint companies really play in repair and renovation. When a person is building a new house or a person is building a new building, in fact, in the new building segment where Nina Percept, etc., are playing, the competition tends to be the other multinationals like Sika and Fosroc. It is not the paint companies that are competition. In the individual housing, again, remember in new construction, the basic waterproofing is done when you are putting the slabs so on and so forth, much before paint ever enters the consideration. And that's the time that the consumer is going to be building material store, what is the cement and steel store. And therefore, most paint companies don't have a reach there itself. Where the competition exists is in repair and renovation. World over 60% to 70% of waterproofing is new construction, 30% is repair and renovation. In India because our quality and construction and people haven't done waterproofing during this thing, repair and renovation has become bigger. Now the fact of the matter is that largely the warranties matter on the exterior and on exterior, we also have a full range of paints. So, Raincoat, which is our equivalent exterior product, offers the same warranties, etc., and it is the first waterproofing paint. So, while paint companies compete with us, remember pretty much they compete with us in 1/3 of the market.

Moderator:

The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy:

I had a follow-up question on Pepperfry and HomeLane. Now these businesses require a lot of cash as these are digital businesses and because of work from home and impact of more digital consumption, these would be seeing more demand also structurally. If you don't invest further, your stake will get diluted. So, what is the thought process on further investment in these cash burning businesses?

Bharat Puri:

See, we will look at it on a case-to-case basis. Up to now, we are very happy with our investment, both from a learning perspective, and the way this market is going, it will actually also give us a very good financial return, but that was never our objective. Having said that, we are a company that constantly keeps pushing the envelope, experimenting and therefore, if we find that this is an area that we need to keep getting deeper in, we will keep investing.

Abneesh Roy:

You were putting up 12 new factories in India. So, what is the update on those? And from a 2, 3 years perspective, would you need to put outside India also in some of these products?

Pidilite Industries Limited
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- Bharat Puri:** Yes. Actually, we've actually just completed our second factory in Bangladesh, we have just inaugurated our JV in Kenya with a new factory, and we have plans in 1 or 2 other locations. We have always said that international will follow national. India will be our laboratory. We will learn and succeed in India. Once we've got a success model, we would reapply it to other emerging markets, and that is the model that we keep going forward.
- Abneesh Roy:** But digital investments like HomeLane and Pepperfry will happen only in India, right?
- Bharat Puri:** Yes, those are only in India. We are not going to do investment for investment. We are doing investment largely for learning and participation.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Pradip Menon:** I just wanted to thank everybody for joining in and just wish everyone to remain safe and sound during these challenging times.
- Bharat Puri:** Absolutely. I just wanted to wish people to stay safe, stay strong and hopefully when we meet next time, the third wave is a distant memory and hopefully, we're in better times. That's all we hope for. And thank you all for your participation. Always a pleasure. I always learn from these interactions as much as inform you. So, thank you all for your participation.
- Moderator:** Thank you. On behalf of Spark Capital Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines

(This document has been edited to improve readability)