



12<sup>th</sup> November, 2020

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

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National Stock Exchange of India Ltd.  
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Bandra-Kurla Complex,  
Bandra (E),  
Mumbai - 400 051  
**Stock Code - PIDILITIND**

**Sub: Transcript of the Earnings Call**  
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Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 6<sup>th</sup> November, 2020.

Kindly take the same on records.

Thanking You,

Yours faithfully,

**For Pidilite Industries Limited**

**Puneet Bansal**  
**Company Secretary**

Encl: as above

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“Pidilite Industries Limited  
Q2FY2021 Earnings Conference Call”

November 06, 2020

**ANALYST: MR. ANAND SHAH – AXIS CAPITAL**

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



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**Moderator:** Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited Q2 FY2021 Earnings Conference Call hosted by Axis Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Axis Capital Limited. Thank you and over to you Sir!

**Anand Shah:** Thanks. Good afternoon everyone and on behalf of Axis Capital, I welcome you all to the Pidilite Industries Q2 FY2021 Earnings Conference Call. We have with us the senior management of the company represented by Mr. Bharat Puri, Managing Director; Mr. Apurva Parekh, Executive Director; and Mr. Pradip Menon, CFO. With this, I would just like to hand over the call to the management for opening remarks. Thanks, and over to you!

**Pradip Menon:** I will begin with the summary of the business and financial performance for the quarter and half year ended 30th September 2020 for the standalone business. There has been sequential improvement in demand conditions during the quarter. Rural and semi-urban areas recorded double-digit growth. Performance in metros while improving sequentially has still to reach pre-COVID levels. Overall, Consumer and Bazaar segment returned to growth reaching at pre-COVID levels in most geographies. Growth was healthy in construction chemicals and DIY products. B2B segment continued to face headwinds; however, it showed signs of recovery in the latter part of the quarter. The profitability for the quarter was aided by benign input cost and strong cost optimization measures. While we are seeing signs of input costs hardening, we remain cautiously optimistic on steadily improving demand recovery. Our plants are operating at a capacity utilization of approximately 90% and operating efficiencies of our warehouses have been impacted on and off. On November 3, 2020, the company has completed the acquisition of 100% stake in Huntsman Advanced Materials Solutions Pvt. Ltd. (HAMSPL) for a cash consideration of approximately Rs.2,100 Crores excluding customary working capital and other adjustments. HAMSPL manufactures and sells adhesives, sealants, and other products under well-known brand such as Araldite Karpenter and Araseal.

Now moving to financial performance, net sales grew by 3.7% with underlying sales volume and mixed growth of 3.6%. This was driven by growth of 7.4% in sales volume and mix of Consumer and Bazaar (C&B), and a decline of 7.2% in sales volume in mix of

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Business to Business (B2B) segment. Net sales for the half year ended stood at Rs 2,388 Crores, a decline by 28% over the same period last year. Material cost as a percentage of net sales is lower by 283 basis points over the same quarter last year and 200 basis points versus previous quarter. Due to availability constraints our major raw material Vinyl Acetate Monomer (VAM) spot prices have moved up and have already breached the \$900 mark. Consumption cost for Q2 FY2021 of VAM is approximately \$765 per ton as compared to \$901 in Q2 FY2020. Going forward as I said earlier, we see this cost increasing. EBITDA before nonoperating income at Rs 473 Crores grew by 35% over the same quarter last year on account of lower input cost and advertising and sales spends. EBITDA for half year ended stood at Rs 570 Crores, a decline by 26% over the same period last year. Profit before tax and exceptional items at Rs 455 Crores grew by 22% over the same quarter last year. PAT at Rs 339 Crores grew by 5% over the same quarter last year due to tax reversal in the prior year with reduction of corporate tax rate. On a like-to-like basis, PAT grew by 27%.

Consolidated performance numbers - Net sales at Rs 1,857 Crores grew by 3% over the same quarter last year. EBITDA before non-operating income at Rs.514 Crores grew by 39% over the same quarter last year on account of lower input cost and lower advertising and sales promotion spends. About subsidiaries performance, international subsidiaries have reported double-digit constant currency growth during the quarter. Domestic subsidiaries continue to witness challenging business environment due to the pandemic; however, signs of revival are observed towards the latter part of the quarter. We are encouraged by the Q2 performance; however, we remain cautiously optimistic on account of the risks associated with the ongoing pandemic. Our focus would be to continually drive volume growth via investment in our brands in sales and distribution, and in consumer relevant innovations. That completes the statement from our side, and I would like to handover to Anand and organizing team for the questions.

**Moderator:**

Thank you very much. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:**

Congrats on great numbers and the recent acquisition. Sir my first question is on Huntsman, what was the thought process behind this? Huntsman is also into adhesives, sealants and you are obviously the dominant player there, is it to get essentially lead over any other



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player entering, if someone else would have acquired, that is the main reason or it adds to your distribution or brand or product technology?

**Pradip Menon:**

I think in any kind of consumer business, when we look at a business there are a couple of elements to look at. One is the kind of brand that it has, the business model, and the kind of distribution opportunity. So, we have looked at all those elements. If you look at Araldite which is the brand as part of the Huntsman acquisition that we have got in the process for the Indian subcontinent, this has leadership position in the Epoxy adhesive segment and this is essentially very, very high-performing adhesives used in marble stone, metal, and bonding purposes, and therefore with the leadership position that the company has and the opportunity to improve distribution in the geographies, given the way we operate, the Pidilite model, connect with users and all that. These are the two primary elements and of course in terms of the business and the nature of the particular business that we have, it is enough to enunciate which is obviously in the right box in terms of profitability, in terms of opportunity to grow from a distribution perspective, and these are the reasons why we have looked at that brand.

**Apurva Parekh:**

Yes, I think you have covered most of the points, but Abneesh you know Araldite is obviously an iconic brand, an extremely well-known brand in its segment, and acquiring Araldite completes our adhesive portfolio. We were always present in Epoxy adhesives for many years, but Araldite was the market leader. So with acquisition of Araldite we have now a portfolio of very strong brands including Fevicol, Fevikwik, M-Seal, and now Araldite. So, the main purpose of the acquisition was that it was a very, very strong brand with very strong position in Epoxy adhesive segment.

**Abneesh Roy:**

Sir my question is that now in Epoxy you will have your own brand and Araldite, similarly Araldite Karpenter or Araseal, you will have your own brands. So, how does brand architecture work in the medium and long term, you will retain both brands or there will be price laddering which will distinguish between the two, or region wise could there be some difference?

**Apurva Parekh:**

The overall strategy and business plan will evolve over a period of time, but generally in all brands that we acquire we maintain the brands and each brand has its own position in our portfolio. So certainly we will maintain and strengthen Araldite and the related brands like Araldite Karpenter, but the exact positioning of that and how exactly we will grow them is something which we will develop over the coming months.



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**Abneesh Roy:** Will there be royalty which is required to be paid and similarly you have the trademark license for Middle East, Africa, Asia, so in these geographies is already Araldite present or you would need to go there and tap into your own distribution which might be there?

**Apurva Parekh:** Araldite brand in Indian subcontinent has been assigned to the entity which we are acquiring, so no royalty will be payable. As far as license goes for Middle East, Africa, and Asia, it is a business that we will have to study and then decide how to grow. It is not a very large business, but I am talking about segments for which we have got license. We will have to assess that market and then grow it. We will have to determine the appropriate distribution network for that.

**Abneesh Roy:** Fine. My second and last question is on your waterproofing businesses. There, this quarter also the services business you had acquired. This quarter also there is a big dip, as Q1 was a washout. Nina Percept, the Company I am talking about. What is the way forward there? What are there issues if you could discuss because this was an acquisition done a few years back and now suddenly things are looking quite different from your main business and your international business, etc., is there any specific issue here or it is more of a competition or discretionary spend?

**Pradip Menon:** There are two to three things about Nina - Percept. One is that as you rightly said it is waterproofing services, but in a way, it is one entity of ours which has absolutely direct link with the real estate sector and the performance of the real estate sector. The real estate sector even prior to COVID was going through significant challenges and those challenges got accelerated during the last six to seven months. Having said this, while the Q2 performance what you are seeing obviously is the performance in terms of revenue growth and profitability, the positive side that we are seeing is that there has been sequential improvement in performance of that entity even during the quarter, and that is something that is giving us much more confidence going forward. Having said that, it is too early to say whether things are going to be a complete turnaround. It will be linked with the overall performance of the real estate and the speed with which that sector recovers. The Consumer and Bazaar segment, , you have seen the recovery in that segment. We are not obviously seeing the same pace of recovery there and therefore it is still a watch out.

**Abneesh Roy:** Yes, but essentially this is new homes, how much percentage of sales is to new homes for Nina Percept?



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**Apurva Parekh:** Yes, for Nina - Percept, the entire business is new homes. Nina - Percept business model is to provide waterproofing services largely for new projects. There may be some repair and rehabilitation work, but their work is largely related to new buildings, new commercial complexes, infrastructures, so significant part of their revenue is from new construction activities. Just to add, of course this segment is going through very difficult time, but Nina - Percept is a strong market leader in this segment. Of course, this segment is stressed but if you go back, we had a very good performance in 2018-2019, and 2019-2020 had difficulties, ending the year with corona, and of course this year there have been a lot of difficulties, but inherently it is in unique strong position. It is a market leader in segment where people require specialized waterproofing services for large projects and it has very good synergy with Pidilite, so we are hopeful that as economic conditions improve, as the construction activities pick up, this business should also start performing better.

**Moderator:** Thank you. Mr. Roy, we request that you return to the question queue for followup questions, thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

**Latika Chopra:** My first question is again on Araldite. If you could elaborate a little more on what kind of revenue growth profile, what kind of margin profile has this business seen so far? And what kind of revenue or cost synergies do you anticipate here? Any quantification if you could share that will be useful?

**Pradip Menon:** In our press release, we had already covered the calendar year performance of the brand. It was about Rs 400 Crores for that business in 2019. As far as the synergies on revenue and cost is concerned, I think it is a bit too early, obviously we have some internal thoughts and things, but it is too early for us to really talk about it in a public forum for the simple reason that we need to take some time to understand the business. We believe that in about three to six months' time we will be able to come back with a clear picture to the external investors on where we see the opportunity. At a very principle level, the strength of Pidilite is of course deeper distribution and penetration across markets and across geographies. Obviously, we see some opportunities there, but it is too early to call that out at the moment.



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**Apurva Parekh:** Just to add to it, we know obviously this business very well. Araldite business with its distribution structure or with its end-user profile we understand this segment well and we have also been a participant in Epoxy adhesive for a very long period. We have good understanding and expertise in terms of both distribution and end-user activities, so we believe that all of this should help us to accelerate growth of this brand and in addition, we did the valuation at most reasonable revenue and EBITDA multiple, so we are hopeful that as we accelerate the growth, this should be beneficial to the company.

**Latika Chopra:** Sure, what I was looking was for any kind of revenue growth in the past that you could share, but probably with your distribution footprint and initiatives?

**Apurva Parekh:** Past period growth is not relevant and also in the last three or four years there was a different kind of a situation in India, where the growth rate of almost all big companies were impacted, I would not really look a lot at last three to four years, I think going forward with the value that we will add, we are hopeful that we can accelerate the growth rate.

**Latika Chopra:** Sure, and my second question was, you have touched upon the waterproofing services segment, but there is a lot of focus on initiatives to scale our presence in the other growth and pioneer categories which you have outlined over the last few years, like floor coatings, wood finishes, tile adhesives, joineries. How do you assess your performance in these categories so far? What was your own internal benchmark and we will exclude the COVID impact here, and how should one think about growth for these segments going forward?

**Apurva Parekh:** I think Latika amongst the segments that you talked about, some of the segments are doing quite well, for example tile adhesive with our brand Roff and joinery adhesive where we sell a variety of high-end adhesive for joinery market, both of these segments are doing quite well. We have focused hard on developing the right products, building root to market and doing other activities, so we are good in those two segments. The other segments that you talked about were floor coating, that was the acquisition which we did of a company called Cipy. Now, this company like Nina is impacted somewhat because of the new construction related activity, a lot of their business is into new construction including flooring for various projects, parking lots for large buildings. That segment is impacted, but again like Nina, Cipy is also in a great position as far as market position goes, and we believe that as market improves and some of our initiatives take shape, we should be able to improve the performance. That is on Cipy, but otherwise both the tile adhesive and joinery





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businesses are doing well. There is some COVID impact, but both businesses are doing well and has started to recover very well.

**Latika Chopra:** Sure, thank you so much.

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

**Arnab Mitra:** My first question is, you have mentioned that India recovery has been led by waterproofing and DIY, so I wanted some sense on how the woodworking adhesive business is doing? Is that still relatively weaker because of the higher linkage to real estate and we do hear that there is a pickup in the real estate market, a lot of registrations at least in the bigger cities starting to happen, are you seeing trends where the woodworking adhesive segment is now starting to see good improvement?

**Pradip Menon:** As I said in the opening remarks, we are seeing sequential improvement in demand conditions during the quarter and you know, every month has been better than the previous one, and that is also true for the woodworking adhesives. We are seeing a similar trend in those segments as well. What was the second part of your question?

**Arnab Mitra:** I was talking about the pickup in the real estate market. Any sense that you are seeing that is happening in the woodworking adhesive segment?

**Pradip Menon:** Again, in real estate, it is too early to really take a call in the whole process, but certainly from a demand situation we are seeing things where there was no demand and there was hardly any off take, we are seeing that improvement in the quarter. There are certain projects which were sort of stopped. Frankly speaking, there is also an impact of Q1 where there was no off take at all and when the things opened up, there will be some bit of pent-up demand also coming through. I think that is something we have to be cognizant of but having said that we are not seeing any very, very clear signs of a real estate pickup or a recovery, too early to call that out.

**Arnab Mitra:** My second question was on margin, so couple of questions here. One is the VAM hardening and despite crude being low, is it short-term supply issue that you feel is there or that prices are going to be in your sense not driven by supply kind of issue right now and second is the other expenses which have seen a big reduction this quarter Y-o-Y, how much



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of this is kind of a permanent reset of your cost structure due to cost deficiencies and how much would you say would come back in the due course of normal business?

**Pradip Menon:**

I think it is a good question. On the VAM, you see, I think when COVID happened there was sort of a sudden abnormal drop in the prices of VAM in terms of spot prices. We are seeing the cost going back to the pre-COVID level, so that is really what is happening. We are not saying there is inflation over last year or something. At \$900, last year similar time the VAM prices were about \$900 as well, so it is more a movement from the current low going back to the previous situations. Sustainability or otherwise of these prices is very difficult to say. There has been certain force majeure, lockdown of capacity in parts of the world where the production is happening which has impacted it. Whether all of that will come back, supply will come back, prices will come back to lower level due to lower crude is very difficult to predict at this stage, but you know we are right now operating on the assumption that the prices have gone up and obviously we need to run our business at this price, and there will be an impact going forward from the higher prices. As far as other expenses are concerned, there is some element of cost control which may take for example travel and so on, because all of the original way of operating and the physical meetings and the travels have not gone back to the same stage as it happened pre-COVID. However, the bigger impact is coming from the lower amount of spends that we have had in the advertising and marketing space, and that will obviously come back now. We want to invest behind both advertising and sales promotion going forward to drive volumes, so a lot of that drop-in cost will not be sustainable, it will come back in the coming quarter.

**Arnab Mitra:**

Okay, thanks. That is it from my side, all the best.

**Pradip Menon:**

I just want to add one more point before we move to the next question. We have always said that we like to operate in an EBITDA range of around 21% to 24%, so that is the kind of range we want to operate. Obviously, this is well above those ranges and we see an opportunity to invest behind the brand which we have not been able to in the past few months, and of course the costs coming back.

**Moderator:**

Thank you. The next question from the line of Jay Doshi from Kotak Securities. Please go ahead.

**Jay Doshi:**

Hi, thanks for the opportunity and congratulations on a great quarter in context of the environment and acquisition of Araldite. I have a couple of questions on Araldite and I



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know you have answered some of it. How big is Epoxy adhesives market in India and can you give us some colour, whether it is under its index versus polyvinyl adhesive and rubber-based adhesive as compared to other developed markets, and if you can give some idea about distribution of Araldite today, how does it compare versus your distribution? That is my first question and I have one more which I will ask later.

**Apurva Parekh:** I think you asked three questions in that, but I think first I will address about the distribution. Certainly, the distribution reach of Pidilite is much higher. Even Huntsman in their press release said they could bring it to a certain level and they expect us to take it forward with our distribution reach, so clearly Pidilite as a company has a far distribution reach.

**Jay Doshi:** Any colour you can give in terms of the towns that they reach?

**Apurva Parekh:** No, as you know this kind of information is not shared during acquisition stage, but generally from our idea our distribution reach is far deeper. They will have direct and indirect reach, but our direct reach is far greater, but we will have much greater clarity on that as we take hold of this particular business. As far as usage and penetration, you know, Araldite like TGA, the Epoxy adhesive as a category has similar kind of penetration level. I would say like TGA because it has been in market for a long period of time and there is a widespread understanding in usage of this as a product category. The third question was about market size. The market size is difficult to estimate, like in PVA also we sort of shy away from saying what is the estimated market size because there is no official or there are no well-known figures to state that, but Araldite had good market share. I do not again like to say what is the kind of market share, but Araldite had a fairly large market share so you can derive based on the Araldite as a company the sales figure that we have shared, but it is not as big as PVA kind of a market, but it is a fairly sizeable market.

**Jay Doshi:** Just a small question, would this need competition commission approval or it will not be required?

**Apurva Parekh:** It did not require any regulatory approval and transaction is already completed.

**Jay Doshi:** Understood, thank you so much.



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

**Avi Mehta:** Okay, and I just a few book-keeping questions. One was on the reduction in inventory. I just wanted to understand was this largely raw material rate or was there any finished good? Is this inventory reduction sustainable that we have seen on Y-o-Y versus Q4?

**Pradip Menon:** Typically the inventory numbers this quarter versus let us say March or even previous year may not be strictly comparable because if you just look at from a balance sheet perspective in March we did have a lockdown where sales were not there for the last 10 days of the month, and therefore inventories were higher, so you know that is strictly not comparable. Having said that the levels of inventory that we are having in and around these levels are sustainable.

**Avi Mehta:** Lastly, the VAM price data, if you could give me Q1, Q2 as well as current, I missed that as I joined a little late.

**Pradip Menon:** Q2 consumption was \$765 per ton. Q1 was \$823 per ton. Current spot prices are going around \$900.

**Avi Mehta:** Okay, I will come back in the queue for other questions, thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

**Percy Panthaki:** Sir my first question is on the Consumer and Bazaar products, the sales growth there is quite robust at about 9.5%. If you can give some flavour within that, basically which subsegments are growing faster than average, which subsegments are lagging and if there is any subsegment which is actually not yet in positive territory?

**Pradip Menon:** We did give a color in the opening statements, so I will just repeat some of those points. I think one is we called out from a geographical perspective that the rural and semi-urban areas have recorded double-digit growth. This is within the Consumer and Bazaar segment. We are seeing while urban overall has recovered, the metros are still not yet at the pre-



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COVID levels. The tier 3 cities and smaller cities have obviously come back to positive territory. This is from a geographical perspective. If you look from a business perspective, construction chemical and do-it-yourself products, these are the ones where you have had growth momentum. In fact, this we have also called out in our previous quarter commentary, that momentum continues and even as far as woodworking adhesive is concerned as I said earlier that has also gone into a positive territory, albeit of course not at the same level as the construction chemicals or DIY. That is the overall colour of the growth.

**Percy Panthaki:** Construction chemicals, just correct me if I am wrong, are mainly the waterproofing segment, right?

**Pradip Menon:** Yes, we have got tile adhesives as well in that, so together.

**Percy Panthaki:** But waterproofing would be a fairly large part of the construction chemicals, and you mentioned earlier that in some respects it is linked to the real estate cycle and in the real estate there is no sign of sort of revival yet, how do we tally these two statements and how do we sort of make sense of this growth in construction chemicals, what is really driving that? Is it not linked to new asset creation and is it just people redoing their houses which is driving the growth or what is it?

**Pradip Menon:** There are two or three things playing out here. One is typically in waterproofing there is a significant amount of work done in Q1 before the monsoons. Because Q1 was a lockdown kind of condition there was a lot of things in terms of demand which slipped in from Q1 into the subsequent period and once the monsoon is retreated obviously the demand has come back. What part of the recovery or what part of the demand is coming exactly from new constructions or from repairs and renovations is difficult to exactly pinpoint. It could also be certain constructions which are ongoing where work has stopped and now recommenced. It is difficult to put a finger on it, but that is the way you have to read this.

**Apurva Parekh:** Just to sort of help you reconcile when we talk about real estate we are talking about multi-storey large projects in bigger cities, metros. Particularly that segment is impacted and when we look at NCR and Mumbai that kind of market was multi-storey large constructions. That is what typically people talk in real estate and that segment is impacted and that is showing lower growth or decline in sales of our subsidiary like Nina Percept. A large amount of construction in India is one-storey, two-storey construction, which happens



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outside of metro and that is a much larger share of the market. It is the very significant share of market in terms of construction, cement consumption, and everything else. That segment is doing well. That is not impacted. When we all say what is impacted is real estate in larger cities. Otherwise, the smaller one or two-storey construction or construction activity in smaller town or rural areas that is doing well and that is aiding the growth. I hope that allows you to sort of understand.

**Percy Panthaki:** Very helpful Sir. My second question is on the margins. You did mention that you would like to be within the 21% to 24% band and right now this quarter is much higher at 27%, just wanted to understand whether this reversion to your guidance is something which will happen at some point of time in the future or is it something more concrete and palpable which we can see that the reversion can happen within nearer timeframe?

**Pradip Menon:** It is very, very difficult to put a number and a month where it will happen, but certainly in the next six months, within this period we do see this coming back because the input prices have gone up and that will have an impact on future consumption, from a raw material cost consumption perspective and we are going to start to invest behind our brands in the coming months. You will see that coming back within the next six months.

**Percy Panthaki:** Thanks, and all the best.

**Moderator:** Thank you. The next question is from the line of Mohit Pandey from Citigroup. Please go ahead.

**Mohit Pandey:** I just needed some data points on the acquisition. If you could share the 2019 PAT number that would be helpful and also the current gross block?

**Pradip Menon:** Okay, I will start with the gross block. You are saying gross block in terms of assets. This entity is having a very, very miniscule amount of fixed assets. The arrangement that this entity has is in terms of tolling. Therefore, the assets are not necessarily in their books, but the assets are through the conversion cost route. So, asset block is not a material number to look at. Coming to the PAT perspective, etc, I do not know whether we can really have that specific number to share. Suffice to say as we have said earlier in the call that it is a profitable business and the PAT will also be quite a healthy set of numbers. Whatever we had in terms of external communication; we have given in the press announcement.



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- Mohit Pandey:** Okay Sir. Secondly, how is the acquisition funded?
- Pradip Menon:** The acquisition has been funded from internal resources. You know, we have a large treasury, so it is essentially through liquidation of the treasury investments.
- Mohit Pandey:** Okay, that is it from me, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anand Shah from Axis Capital. Please go ahead.
- Anand Shah:** Just a question on the construction chemicals market. This market is expanding quite well even in such times and we have seen a lot of players now especially in the organized segment getting very active, especially the main players, and at this time we are seeing growth all across broad base for everyone. What kind of underlying drivers are you seeing for this market, I mean is it now at an inflection point or is it that all of these guys are spending a lot and you are seeing big off take in the categories across?
- Apurva Parekh:** We would not like to talk about things like inflection point or what others are doing, but if you know what consistently we have been saying for many years that this is a very large market and this is a market where there is a great opportunity to expand consumption and that is what we have been working at. We continue to believe that this is a large market which requires serious effort to really grow the consumption and we have been doing this and we will continue to do that. We would not like to comment on the state of the market or whether it is an inflection point or not based on the current quarter or anything. We continue to remain very bullish on this market. We continue to invest in building brand, expanding distribution, introducing new products. You have seen various activities from us in the last couple of years including some tie-ups, joint ventures. So, we are very committed to the market. We continue to invest in the market and we are hoping that this market will continue to grow at increasing growth rates over the coming years, but we would not like to comment on the activities of others or whether it is at some kind of an inflection point.
- Anand Shah:** Sure, thanks. Just a question for Mr. Puri, you have always referred to the growth in the pioneer categories in the portfolio. Any comments especially you can give on some of the pioneer categories, how they are doing and sort of a growth plan for the next two to three years?



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**Bharat Puri:** We are clearly well positioned in the pioneer category. Some of them are already on the high growth path. If you look for example the tiling adhesive business is already in the high growth path. The others for example two of them are in factory construction phase which will be completed by the middle of next year, so absolutely in line with our plans. We have always said we will have a set of growth businesses that will be firing the growth today and a set of pioneering businesses which will start firing for tomorrow, so absolutely on-line.

**Anand Shah:** Okay perfect, just lastly on any new launches that you have done or sort of planned out for the next year in any other category that are doing well?

**Bharat Puri:** We have an innovation program that runs across each of our divisions. So, as we speak for example each of our divisions will be rolling out a set of products. For example, we have rolled out a whole range of sanitizers, etc for the trade as well as for our masons, plumbers, carpenters. We will leave the end consumer to the large FMCG companies, where we believe there is a larger opportunity with the trade and therefore with our intermediaries, we have a range of products there. In each of our divisions, we have sets of products. We have got a whole range, for example of sealants that we have launched under the Feviseal brand which is across divisions. So, we have an innovation program that is ongoing. We have recasted in the context of the current pandemic, but it is an ongoing program and on a regular basis. We are very clear that about one-third of our growth should actually come out of new products or products under launch.

**Anand Shah:** Okay, thanks for sharing this.

**Moderator:** Thank you. The next question is a follow-up question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Hi Mr. Puri, congrats for acquisition. My question is because you also have the FMCG experience, I wanted to ask two questions related to that. One is all FMCG companies have doubled, tripled their online sales within one year because of the COVID crisis. How is Pidilite gearing for this, by bringing exclusive products online or may be much higher focus on online, more partnership, may be even at some stage you are on e-commerce site, could you elaborate on that?

**Bharat Puri:** We have obviously absolutely ramped up online. Remember, for us online is largely in the context of our consumer product businesses, the intermediary leg businesses of the large





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Fevicol like businesses currently do not have an online component even outside India. In these businesses, we have ramped up, we have done very well in the last four months, and we have a set of plans on how to make this in a sense an independent large channel. Some of the products, for example, if you look at WD40, the online sales have now become significant. We are learning from that, moving on. In the interest of keeping some of the things confidential for our competition, you will see that for us this will become a significant channel over the next 12 months.

**Abneesh Roy:** And would you have also doubled the online sales in one year?

**Bharat Puri:** Much, much more than doubled.

**Abneesh Roy:** My second one is related to FMCG background. If you see HUL or even Cadbury's, I do not know, but HUL for example the same product category will have multiple brands. So, Huntsman and Pidilite can they also play similar role? I had asked this question earlier in today's call only, but now my question is more in terms of different price points, because they will obviously be competing with each other, so they will need to have different price points, different proposition, so is that something you would be thinking of?

**Bharat Puri:** Absolutely yes, based on our own consumer goods experiences we will keep looking at certain offers which are exclusive for e-commerce, some which we believe for certain audiences, may be introduce through e-commerce, so there is a whole set of plans. You keep watching as we go forward.

**Abneesh Roy:** And Sir, one question on cement sales and putty sales for the industry. The cement sales numbers have been also quite decent for the industry and you must have seen that for the paint companies most of the growth is coming from putty only. If you benchmark those numbers against your own adjacencies, how does Pidilite compare, because we do not have the numbers, that is the reason why I am asking this question?

**Bharat Puri:** It is very difficult because remember putty is really a commodity business and it is not therefore a business that I would say is a long-term brand building business so as to say if we are transporting large amounts of calcium carbonate and a little of polymer, I will leave that aside. As far as we are concerned, as we look at our business, we are clear where we can add value, where we can create brands, and that is where our focus is. We are not



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interested in operating in the low value end of the market where over time commoditization will happen.

**Abneesh Roy:** Right and Sir last question, about Nina Percept I had asked questions, but one last follow-up there. Nina Percept has been struggling because of the exposure to new homes, essentially it is flat only. So, why is not Nina Percept targeting the standalone properties and old properties, because that is a much, much larger space. In Mumbai I see so many players addressing that part, so what is the reason for that?

**Bharat Puri:** That business is not, what I would say, a good margin long-term business. What we are doing with Nina Percept is as real estate is suffering, we are pivoting the business a lot more towards larger corporate, for example we did the new KIA factory in Andhra Pradesh, we did the Samsung factory in Noida. So, what we are doing is we are pivoting the business again towards larger customers who are not dependent only on real estate but are across the whole, what I would say, the larger construction and infrastructure sector. For example, we have done some tunnels now in Jammu and Kashmir, we are actually turning the business where there is value, there is technology required, and therefore there is a long-term value proposition. What happens in the repair industry, it is a commodity business which is good for the very, very short term, but not good beyond that.

**Abnessh Roy:** Thank you Mr. Puri and thank you Mr. Parekh.

**Moderator:** Thank you. The next question is from the line of Farhan Amlani from SBI Life. Please go ahead.

**Farhan Amlani:** I have basically two questions. First is, like the many paint companies for example Berger Paints are actually entering the waterproofing space and they have better synergies, so how do you take the competition from that? And the second question is what are your future plans, mainly they will be inorganic or you are looking for organic growth? Thank you.

**Bharat Puri:** Mr. Amlani, firstly let me just take a little exception with you. I do not think Berger has better synergies than us in this business. Remember, construction chemicals is about new construction and repair and renovation. In most markets, new construction is 70% of the market and 30% is repair and renovation. Where the paint companies play is in repair and renovation. Largely the new construction goes via the steel and cement channel where a lot of the times the paint companies are not present. Having said that, to win in waterproofing



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what you require is strong brand, great service delivery, and a great network. Now in all three, remember we have a 10-year lead, and we have always said that given that 3/10 Indian homes do any form of waterproofing, competition will actually help expand the market which is what is happening. Please remember in a large marathon we are at the halfway stage, a lot of these companies such as Berger are just going around the first bend. It is a lengthy race, let them come and participate in the race and after some months or after some years you can ask them the question. The fact is if we look at our last quarter, our fastest growing business is the construction chemicals business, so you know if we were getting impacted then it would not be our fastest growing business. Remember, for us we are growing at a base many times our "competitors."

- Farhan Amlani:** Okay. I was talking about they have an upper hand in painting.
- Bharat Puri:** Painting yes, remember a painter does repair and renovation. A painter cannot do waterproofing for a new construction. He does not understand it. It is done during the stage of construction, that is 70% of the market.
- Farhan Amlani:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Sir, first question is can you breakdown the transaction value, I think it is \$285 million which includes a closing amount of \$158 and the balance is subject to certain milestones. Can you provide some more colour on this? That is the first question.
- Apurva Parekh:** The breakdown of the transaction value is 90% is paid upfront and the 10% is linked to a deferred consideration which is like through the revenue achievement over the next 18 months. So, 90% of the transaction value has been paid upfront.
- Ritesh Shah:** Okay, can you provide certain numbers over here, is it like product specific?
- Apurva Parekh:** It is a very simple thing. The annualized sales for any six-month period once it exceeds the 2019 sales figures then the amount is payable.



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**Ritesh Shah:** Okay. How should one understand this, like do we have control of Araldite's retail chain or how should one look at it?

**Apurva Parekh:** We have bought the entity in India, which owns the Araldite trademark for India, so they own the Araldite trademark for India and that particular entity we have bought. So, we have the control on the trademark in India. We have given trademark license to Huntsman for certain usage in manufacturing industry, but otherwise we are the owner of Araldite trademark and we have full control on the business. It is just a mechanism by which the part of the consideration is paid on a deferred basis, but we are running the business effectively from day before yesterday since closing. The closing has already happened and the business is now in our hands.

**Ritesh Shah:** Okay, so if at all the top line does not come, we probably get the business at a lower price, would that be a fair conclusion?

**Apurva Parekh:** That would be a fair conclusion, but that is not the objective. The objective is to accelerate the growth and to payout the deferred consideration, but because of the current uncertainty this is how it was structured which was mutually acceptable to both parties. The objective of course would be to accelerate the sales growth and that would result into payout of deferred consideration.

**Ritesh Shah:** That is wonderful. Sir my question is we have a rich proven history on acquisitions and all. I was just thinking about like, we already have Fevitite and quite deep penetration which you have indicated is one of our core strengths and we have a solid brand, then what was the need for Araldite. The Fevitite product itself we could have made it into Araldite when it comes to market share. So, if one has to retrospectively look at things how would you look at it? The reason I am saying is we have all the ingredients to actually consolidate the marketplace, then why is there a need to acquire such a brand because we are larger brand when we look at things optically? Thanks.

**Bharat Puri:** I think that is a great question. The simple thing is Araldite is an old established and iconic brand. Now for us it will take certain years. Can we win with Fevitite over the longer term? The answer is yes, but it will take number of years and a great amount of effort. We felt for the price that we are paying for the Araldite brand, it accelerates our leadership in that segment. It gives us a brand on which we believe we can build substantially both from a brand as well as a sales and distribution perspective. So, we thought the value works for us



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and therefore we have gone ahead with Araldite. We will still keep our portfolio brands in a sense it now gives us a full portfolio in one chemistry where we were not leaders. We have become leaders, otherwise probably it would have taken us a larger number of years to do the same. So, really what we have done is we bought the accelerated position via the acquisition.

**Ritesh Shah:** Correct, that is helpful. If I had to ask you, if you have to quantify the numbers from a capital allocation decision, we have a solid balance sheet, we can easily afford to do this acquisition, but if one had to look at it from a payback period or from IRR point of view, what is our internal thought process when it comes to something inorganic or organic taking this Huntsman transaction into perspective?

**Bharat Puri:** You take the Huntsman transaction; we are a conservative management. You know, a lot of, what I call, your cousins in private equity are paying very large prices, but we believe we work with our internal benchmarks so as to say where we can generate a decent IRR, we can generate in our view good revenue and cost synergy. If all of that adds up and therefore it makes substantial difference to us and is much higher than, you know, our IRR benchmark, that is when we go ahead and that is the formula that has worked for us over the number of years. If you look at our successful history on acquisition that is our formula. There is no secret to it and we believe the same applies to this Araldite acquisition.

**Ritesh Shah:** I have more questions, probably I will follow up with a separate call. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Pvt. Ltd. Please go ahead.

**Amnish Aggarwal:** A couple of questions mainly on the Huntsman acquisition. The first one being that like the earlier caller also talked about the kind of money which we have paid and we already have our presence there, is the size of Araldite bigger than the sales which we have got in the Epoxy adhesives? That is my first part of the question. Secondly, is it EBITDA margin accelerator for Pidilite? Thirdly, what will be happening to this intangible assets or goodwill, will Pidilite be writing it off in the balance sheet or will they remain as such?

**Apurva Parekh:** I think the first question you said was in terms of the size. Yes of course, as we said earlier Araldite is a strong mark leader, iconic brand, and a strong market leader, so the sale of Araldite is higher than our brands in this segment. Yes, it is much higher. On EBITDA



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margin, yes, it is a very profitable business and its EBITDA margin is comparable to Pidilite's EBITDA margin.

**Amnish Aggarwal:** Okay, and thirdly Sir what will happen to the intangible assets which will come along with this acquisition?

**Apurva Parekh:** Right now we have acquired the shares of this company, so we have right now invested and bought the shares of the company, so the intangible value remains in that company and then going forward we would determine the right structure of it and that would then determine the write off of the intangibles. As of now, it is a standalone company and it will be shown as an investment in our books.

**Amnish Aggarwal:** Okay, so no plans as of now to merge the Huntsman?

**Apurva Parekh:** As of right now, the plan is to run it as an independent entity and to grow it well, and then we will take consideration in terms of what needs to be done, but in short term we will run it as an independent company and that is the current plan and thinking.

**Amnish Aggarwal:** Okay Sir, thanks a lot.

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

**Latika Chopra:** Just one clarification, you mentioned that you are running at capacity utilization level of 90% in the beginning, are there any thoughts of any significant Capex around the corner?

**Pradip Menon:** As you know, we operate with a Capex in a range of about 4% to 5% of our revenue. That is going to be the kind of spend that we will have. As we speak, there are almost 9 plants in India which are work-in progress. None of these are going to be beyond this range of 4% to 5% of revenue that I mentioned. So, all the spends that we will be doing will be within this range, and that is a continuous process of evaluation of our capacity versus our ability to service. That process continues, but it is not going to be a significant amount of differential spend. I hope that clarifies Latika.

**Latika Chopra:** Yes, thank you so much.



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**Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

**Ritesh Shah:** Thanks for the opportunity again. I will just continue where I left. My question specifically was on capital allocation. Now, specifically for the Huntsman transaction, Rs 2,100 Crores, 35% margins, it would essentially imply if on no-growth basis we are looking at a 15-year payback, a rough map. Sir, I would like to understand what are your internal numbers or what is your thought process when we go for something inorganic? Again, the question bounces back to we are a solid company, brand, distribution, we know the market better than probably anybody else on the street. How shall one justify the multiples that we are paying over here?

**Apurva Parekh:** I think Ritesh no valuation is done based on a big score basis. So, a payback period of 15 years assuming no growth would not be a right assumption. Certainly, we expect Indian market to grow, we expect our business to grow, and we expect growth to accelerate. We have a proper internal valuation methodology for evaluation of all our acquisitions and we believe that we have done the acquisition at right valuation and having a reasonable growth assumption. Besides that, it is a market leader and it is an iconic brand which also allows us to have a number of other cost and revenue synergies. So overall, we believe that our valuation has been reasonable and Bharat if you want to add, go ahead.

**Bharat Puri:** Yes, Ritesh we have always said even for a moment I consider Araldite, it will probably fall somewhere between a core and a growth category, but even in the core category, our objective would be to grow it at one-and-a-half times GDP at the minimum and then add on synergies from a revenue point of view. The fact that obviously Araldite today, given its limited presence does not reach two-thirds of the places that Pidilite as a company does is an obvious opportunity and likewise, we also believe the brand has opportunities. So, I think the best time to again revisit this question will be six months later when we see what we are doing with the brand, we have gotten our arms around it, and what we are doing with it.

**Ritesh Shah:** That is useful. Just to add, would it be possible for you to scope at what rate is the market growing at?

**Bharat Puri:** Right now, leave aside the pandemic, the market for this has been growing at between one to one-and-a-half times GDP on a regular basis.



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- Ritesh Shah:** Okay, and Araldite would probably have one-third market share?
- Bharat Puri:** Probably more than that.
- Ritesh Shah:** Sure, thank you so much for the answer. I appreciate that.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** Sir, on the Epoxy adhesives market which is what Araldite is all about, I just wanted to understand is the applicator very different from either construction chemicals or Fevicol kind of key business?
- Bharat Puri:** There is a certain amount of overlap. For example, the contractor when he does stone application etc, our waterproofing guys will deal with him, the construction chemicals, he is the consumer. There is a lot of wood-to-wood consumption which is via the carpenter. There is a certain amount of glass and PVC and stone, which is another set of contractors. So, I would say there is a fair degree of overlap and there are some newer customers.
- Avi Mehta:** Is my understanding correct that a large portion is non-wood in nature is in the current consumption or is that understanding wrong?
- Bharat Puri:** That would be correct. A large part of it is still in new construction. Non-wood would be greater than wood to wood.
- Avi Mehta:** In that context, would it be more of a plumber or something of that sort that we are kind of comparing?
- Bharat Puri:** It is comparing all four. It is the courtly contractor, it is the mason, it is the glass fellow, it is the carpenter, it is the granite and stone/tile layer, so it is all of them.
- Apurva Parekh:** Yes, I think these are the major users. Also, there are users like mechanic, auto mechanics, some small handicraft type of industries, but what Bharat said are the major four or five end-user segments.





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- Avi Mehta:** Where I was coming from is one of our strengths has been to meet these. We obviously have a very strong brand here, but the handicap, if I am wrong in that understanding, the handicap would be the applicator is quite different. Is that the hurdle that we are going to be focusing on or is that understanding is incorrect in the first place?
- Bharat Puri:** That is not a handicap, but yes, now that we are now approaching him with our formula of handling the applicator but with a brand that he trusted and used for years makes it much, much easier.
- Avi Mehta:** Okay, and the second part Sir is that the understanding I had is Araldite is operating from a pricing perspective is at the premium end and the products are kind of focused on that segment. Fevicol in contrast has almost completely covered the market in terms of pricing and in terms of usage. Is that an opportunity that currently does exist in Araldite, that is a low-hanging fruit, is that a fair understanding or not?
- Bharat Puri:** Too early to say Avi, give us a little bit of time, let us understand the market, let us understand how we will play the portfolio game. Yes, as Pidilite we always make sure that we have a product for each kind of customer, but right now it is too early to say how will the portfolio evolve.
- Avi Mehta:** Okay and lastly Sir, as you have rightly highlighted, not just Araldite but if I am correct, in contrast when you had Dr. Fixit, there was a manufacturing footprint that came with it. Is that a big driver over here or not really, and would you kind of look to invest in that or how would that go Sir?
- Bharat Puri:** It is not a big driver. We obviously get the know-how and the technology along with it. There are current tollers, but again remember we make Fevite, we make Bluefix, so we know this technology. If we need to invest, we will invest for the manufacturing. I think again it is a question six months down the line.
- Avi Mehta:** Okay Sir, that is all from my side, thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing comments.



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**Pradip Menon:** Yes, on behalf of the Pidilite team, a big thank you to all of you for attending the meeting and please stay safe. As we approach the festive season, best wishes to you and your family. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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(This document has been edited to improve readability)