30th October, 2024

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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
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Sub: Transcript of the Earnings Call

Dear Sir,

We enclose herewith, a transcript of the Earnings Call held with Analyst/Investors on 24th October, 2024.

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

Kindly take the same on records.

Thanking You,

Yours faithfully,

For Pidilite Industries Limited

MANISHA RAKESH SHETTY Digitally signed by MANISHA RAKESH SHETTY Date: 2024.10.30 18:53:25 +05'30'

Manisha Shetty
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"Pidilite Industries Limited
Q2 FY '25 Earnings Conference Call"
October 24, 2024

MANAGEMENT: **MR. BHARAT PURI – MANAGING DIRECTOR – PIDILITE INDUSTRIES LIMITED**
MR. SUDHANSHU VATS –MANAGING DIRECTOR, DESIGNATE – PIDILITE INDUSTRIES LIMITED
MR. KAVINDER SINGH – JOINT MANAGING DIRECTOR, DESIGNATE – PIDILITE INDUSTRIES LIMITED
MR. SANDEEP BATRA – EXECUTIVE DIRECTOR, FINANCE AND CHIEF FINANCIAL OFFICER – PIDILITE INDUSTRIES LIMITED
MR. DHARMENDRA LODHA – SENIOR VICE PRESIDENT, FINANCE – PIDILITE INDUSTRIES LIMITED

MODERATOR: **MR. PERCY PANTHAKI – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Pidilite Industries Limited Q2 FY '25 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Percy Panthaki from IIFL Securities Limited. Thank you, and over to you, sir.

Percy Panthaki: Hi. Good evening, everyone. It is our pleasure to host the conference call for Pidilite's Q2 FY '25 results. I have on the line with me, Mr. Bharat Puri, Managing Director; Mr. Sudhanshu Vats, Managing Director Designate; Mr. Kavinder Singh, Joint Managing Director, Designate; Mr. Sandeep Batra, Executive Director, Finance and CFO; and Mr. Dharmendra Lodha, Senior Vice President, Finance.

I'll hand over the call to the management who will take you through the results, and then we will open up for Q&A. Over to you, sir.

Sandeep Batra: Thank you, Percy, and good evening, everyone. I'll keep my opening remarks brief and short. And I'll take you through the highlights of the Q2 and half year results, which was approved by our Board yesterday. The current quarter's revenue was INR 2,965 crores, 7% higher than same period last year with an underlying volume growth of 8%. As you would observe, the gap between UVG and revenue growth has narrowed.

Demand for Consumer and Bazaar products was impacted by rains in the beginning of the quarter. Consumer and Bazaar UVG was 6% with rural markets continuing to outpace urban growth. The B2B businesses continued the growth momentum with a UVG of 21%, driven by industrial and project verticals. Input prices remained benign, resulting in a gross margin expansion by 280 basis points over the same period last year.

VAM consumption in the second quarter was around $980 a ton compared to $1,000 in the same period last year. EBITDA margins for the standalone business were at 24.6%, expanded by 143 bps over the same period last year.

For the first half of the current year, standalone revenues were INR 6,099 crores, and underlying volume growth of 9%, which was broad based across both Consumer and Bazaar with a UVG of 7% and B2B with a UVG of 19%. Gross margin in the first half also expanded by 380 basis points over same period last year and H1 EBITDA came in at 24.6% versus 23% last year. Resultant PAT growth for the half year was 19%.

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Investor Relations - investor.relations@pidilite.co.in CIN: L24100MH1969PLC014336

Our working capital situation remained healthy, resulting in strong cash inflows, and we continue to invest in upgrading and building new facilities and our distribution network. A quick commentary on the consolidated results. Consolidated revenue for the quarter at INR 3,223 crores was higher than same period by 7% after adjusting the revenues from Pidilite USA and Brazil subsidiary. Adjusting for that, the growth was around 5%.

Consolidated profit after tax grew by 18% over the quarter last year. And for the half year, PAT is up 19%. Despite challenging economic conditions across the first half, first quarter disrupted by elections and the second quarter because of extensive rains, we have delivered robust underlying volume growth as well as improved profitability.

With that, that is all that I have by way of opening remarks, I open the floor for Q&A.

Moderator: Thank you very much. Our first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: So, my first question is on the demand side. So, we have seen FMCG companies this quarter call out urban slowdown. In your case, also, Q1, there was an impact of elections and heatwave, and it was 8% volume growth in C&B. This quarter, the volume growth is 6%. I wanted to understand how much of the impact of the rains in your portfolio in paints. It's a bit easy to understand because exterior paint, there's a clear impact.

In your case, given the industries are quite diversified, and you have got different kind of products also. So, if you could tell us in the non-rain impacted portfolio, is the demand still more like double digits? And next 2 quarters, your base is on the double-digit side. So, it is on the higher side. So, do you expect that the double-digit kind of volume growth in C&B could come back?

Sudhanshu Vats: First of all, to you and to everyone on the call, Happy Diwali in advance and a very happy festive season. I think, a very good question. And I think you've been hearing this on demand side from multiple people.

I think, first and foremost, Abneesh, Bharat and I, we always keep reminding everyone. So, I just want to first remind, when you call volume growth, we are first talking here underlying volume growth.

If I were to give you the volume growth of our C&B business, which is total volume growth, that is still double digit. So, I think that's very clear. And basically, our overall is plus 15-odd kind of percent number, in terms of total volume growth. But if you look at underlying volume growth, which as all of you on the call understand is turnover growth at constant price, which takes into account both volume and mix and therefore, gives you the quality of growth.

To your very specific question, Abneesh, I think, see, in our case, we have got a wide portfolio, so it's a bit of a mixed bag. So, I think there are certain areas which don't get impacted. You are absolutely right. And therefore, there are certain segments which have therefore delivered robust growth because if there is some work happening which is indoor and has no implication, there'll be nothing.

But at the same time, much like paints, for us also in waterproofing in construction chemicals, it's unlikely that you will be doing waterproofing when it's raining cats and dogs. And as you know that in this quarter, there were certain states which were very adversely affected with monsoon. Gujarat is one of them, as I can tell you. So, I think we have also seen this state-wise pattern as we go forward. But what I'm very happy to report for us at Pidilite, if you see a healthier overall underlying volume growth and volume growth for us, I think I attribute it to the quality of our portfolio because we built that portfolio and also to the entire approach to execution by core, growth and pioneer. So, I think we do have growth in pioneering categories where irrespective of the overall demand scenario, I think depending on how we deliver on our execution, we tend to deliver a bit better than the others.

Abneesh Roy: Sure. That's useful. One follow-up question on the urban demand. So Sudhanshu, you are a veteran of FMCG, having worked in marquee companies. So would you say that the urban slowdown in general, which I think a lot of categories are facing not just in FMCG. If you see even in cars, 4-wheelers, there is a significant slowdown versus, say, 1 quarter, 2 quarter back. What will be your thoughts on this?

Why I'm asking this is until now last 3-4 years, real estate homes have done really well, new homes. And you do have an indexation towards that. So that does slow down at some stage, still robust. But if that does slow down, that obviously will have ramifications. So, any initial thoughts on the slowdown related largely to the food inflation. If food inflation cools off, say, in the next few months, would you expect this slowdown in the border consumption to reverse?

Sudhanshu Vats: Abneesh, let me answer the question in 3 parts. Let me first pick up the very specific food inflation part. And here, I am talking more for FMCG. And as you know, Bharat and I are also on the FMCG committee, and I have had that experience. So, I'm here talking on behalf of others, not necessarily our business. I think there is direct linkage on food inflation. So therefore, as you rightly pointed out, if that eases, there will be advantage to the companies that operate in that area. That's the first part.

The second part of your question on urban demand. I think so our own understanding is, I'll put it in this form, that is the demand buoyant. Is there a considerable buoyancy? The answer to that is no. It is not rarely buoyant. But is the urban demand like some of the people have given the commentary, as adverse as has been set out, I think we would like to reserve our judgment on that for another 3 to 6 months.

We want to see the outcome of the monsoon, which has, by and large, been good. So, I think we will and perhaps with the point which you made on even food inflation, if it eases a bit because of Agri output on the monsoon and all that. So, our own prognosis on urban demand is that we will hold our judgment for another 3 to 6 months.

On the third part, Abneesh, I just want to remind you, while we get impacted and we are always happy and buoyed by a new construction, the ratio of in-home improvement of renovation to new construction in roughly 80%-20% kind of a ratio between these two. So therefore, new construction is good news.

But first of all, new construction comes to us with a lag, as you may have heard from Bharat many times over. And secondly, that component of new construction to our demand is lower than what it is for renovation. So, I think we don't see a direct impact of that immediately. But to sum it up, I think wait and watch for another 3 to 6 months and then take a final call on it.

Abneesh Roy: Sure. Second and last question. So Pidilite historically has been very, very proactive in terms of targeting new demand drivers well ahead of any peer. Now this plan for targeting, say, EVs and the phone manufacturing. Any further update if you can share? And I'm not asking on next quarter or, say, Q4 or maybe even FY '26. But in terms of optimism and long-term revenue, which you can target on an annual basis, say, in the next few years, any clarity you've got on that?

Sudhanshu Vats: So Abneesh, absolutely no numbers. But I think the good news I can give you is that we are progressing well on that. As a matter of fact, we met up with the partners again. And as I speak to you in the month of October, we have opened an application center in Bangalore. And therefore, we already, as you know, are operating as a distributor of our partner, eventually we'll take this partnership at the next level. So, I think, all in all, we are progressing well. Beyond that, I can't tell you. We are very excited and we are progressing well is what I would sum it up to this question.

Moderator: Our next question is from the line of Jay Doshi from Kotak.

Jaykumar Doshi: Just a follow-up question there on your partnership with CollTech. Can you give us some idea in terms of what is their positioning at a global level? Who are the large players, or they are suppliers of high performance adhesives. And typically, what's their market share of standing globally in that space. So that's the first question.

And is this distributor arrangement largely a pilot that you were sort of and eventually, if this scales up would you be manufacturing it in India and taking this to the next level? Or it's at this point of time? Or is it going to be distributor level relationship for the long term?

Sudhanshu Vats: On our partners, I think these partners have a very strong product portfolio across chemistry and as you would understand, this is a very specialized high-precision thermal resistant kind of chemistry portfolio across different chemistries.

So, first of all, the product portfolio is very good. Second thing is that they have a very strong inclination on R&D. 20% of the manpower is on R&D and therefore, there's constant R&D work which is done. And without naming, I can tell you that some of the large marquee customers across the world are customers of our partners.

Now in terms of the partnership is concerned, the partnership has been envisaged in phases. Our current phase is basically as a distributor. And in this, we are very excited with the work which we are doing. We set up the cold chain with Snowman. I think in collaboration with Snowman we have already started. We have done a lot of specification sampling. We have done some commercial sampling. We have also got an initial order. So initially, it's very good, this thing. I think in terms of manufacturing, your question, we will answer that question when we come to it. I think we are very open to that thought. But as and when we talk about it, and when we are more clear and our plans are firm, we will talk about that as well.

Jaykumar Doshi: Right. If I may ask a few more questions, there. In the current context, what product is being used in India? I know the industry is also evolving maybe at a nascent stage. But who are the suppliers at this point of time?

Sudhanshu Vats: So, what I suggest, Jay, is that we can take some of this offline. I am happy between Sandeep and I; we can talk about it in more detail. But I think the point at this moment is that there are multiple guys. As you know, this is a slightly different supply chain, as I'm sure you guys must be aware. There are contract manufacturers, some of the biggest guys that Tata Electronics itself is very large in India now.

They have acquired 1 or 2 of these contract manufacturers also in India. And then there are a whole host of EMS companies, as you know. So, I think this supply chain, we are basically getting to understand, working with them. We have visited some of our top customers, we are working on this piece. We'll be happy to take something in more detail with you offline.

Jaykumar Doshi: Sure. I'll reach out to you separately. Second question is Akzo Nobel's decorative paints business is on the block and some of the companies have publicly expressed interest. So, what's your view on that? Does it interest you?

Bharat Puri: I'll take that. Good to hear from you, Jay. As far as Akzo Nobel is concerned, we have also read the report, so on and so forth, tetc. Let us get all of the details, what is on the block, what is happening so forth. And at an appropriate time, we will then reply on whether it's an area of interest or not. Too early right now. It's all in the press, but they haven't still moved forward from the press into real action.

Moderator: Our next question is from the line of Sonali from Jefferies. Please go ahead.

Sonali: Wishing everyone a very happy festive season and congratulations for a healthy UVG.

So, my first question is related to any update you would like to give on the smaller business segments, that's paints and NBFCs? And secondly, just an extension to the commentary by Mr. Vats to our previous participant's query, how much of our overall sales would emanate from new construction versus renovation? And thirdly, the present cost of VAM consumption?

Bharat Puri: Thanks, Sonali. The whole set of questions, let me start first. As we have always said, for the paint's initiative, we are in the Southern states, we will be in a position to share updates at the end of the period, which is in around March. As of now, and I can tell you with the company with our sales and distribution strength and clout, obviously, initially, you get good response. But I would wait and come back to you with further plans on what our results are in March.

Similarly, on the NBFC, we have just concluded Stage 1 of the 2-stage pilot. Again, we will have firm results on the pilot, which is happening in Bangalore in March. So, in both these areas, you will get an update from us in March.

Your next question, I'm not answering in the same order. Simple VAM consumption rates this time is $980 a ton. Last time was close to $1,000 a ton. So, we are pretty much in the same area. Remember it's very difficult for us as a company given that we have 37 different verticals to aggregate and say what part of our demand comes from new construction versus renovation.

But I'll tell you it's a very simple thing that we use, let's use a 70%-30%. 70% comes from repair and renovation, 30% comes from new construction. New construction tends to be, therefore, the multiplier. The larger part is actually repair and renovation. Have I missed any of your questions?

Sonali: No, sir. Not at all.

Moderator: Our next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: Sir, congratulation to the Pidilite team for such a good number in a challenging time. I'm a little new to the company. I want to understand that in last 5-6 years, we have added under home care and in several categories also as well as within a category also, we have added new products. So, can you give some kind of innovation turnover index? And how do we see going ahead? That is the first question.

Bharat Puri: See, Bharat bhai, very broadly, the objective we set for ourselves is $2/3^{rd}$ of our growth should come out of growing the core and $1/3^{rd}$ should come out of innovation. We have largely been true to that as we go forward. We also use exactly the same parameters when we look at new categories and innovation within category. Beyond that, if I share further detailed information, then I'll be helping my competition.

Bharat Sheth: But sir, would you think that going ahead, I mean, whatever products that we have introduced can it accelerate the growth, which we are saying that core is contributing around 65% or 60%? So, from that perspective.

Bharat Puri: See, very clearly, our objective is if we are transforming our portfolio, when we started on this journey, we were 80 core, 20 growth in pioneer. We're about 55%, 45%. By definition, growth in pioneer grows faster than core. And therefore, you're looking at heightened growth. So that is our objective. Over a period of time, we've always maintained we would like to go to healthy double-digit underlying volume growth because we believe that's the best indicator of success in an emerging market.

Bharat Sheth: And last question with your permission. Sir, some of the subsidiaries, I mean, from over last 3, 4 years, still their EBITDA is declining. So, I would like to give some colour on that? When do we expect that to start seeing healthy EBITDA?

Bharat Puri: See, the only subsidiary that has been significantly challenged over a larger period of time has been Nina Percept because this is a contracting subsidiary, which suffered during COVID, then suffered with the lack of labour, etc. But if you notice, this is slowly coming back to profitability. Frankly, over the next 3 quarters, you will see Nina Percept also in a profitable situation.

Moderator: Our next question is from the line of Arnab Mitra from Goldman Sachs.

Arnab Mitra: My question actually was, again, pertaining to the demand environment. So, for want of a better word, you don't seem to be very bearish on the demand conditions compared to some of the other companies I've heard. Now if I look at the first quarter, there was a question of election impact; second quarter, probably a bit of monsoon impact.

Would you say that in December quarter, you should see whatever the pent-up demand or some postponement of activity kind of coming through?

And would you expect December quarter to kind of be much stronger than the first half? And any major difference you see between, let's say, the retail products like Fevikwik versus, let's say, woodworking adhesives, which are more used for carpentering? Is that like a difference in, like, small ticket versus more larger ticket usage products in your case? So, any colour on both of these would be helpful.

Sudhanshu Vats: Yes. Arnab, once again, thank you for the question. And I think the first part of the question, I have partly answered, but I'll again repeat. So, where we are one side is we are also not saying that there is considerable buoyancy in the market. But having said that, I think we performed better. We performed better on the quality of our portfolio, on the quality of perhaps the categories we operate in. So therefore, there is that because each category is operating differently in a country like India at the moment.

And also, our execution on the entire front of core growth. And as Bharat was explaining in the previous question, as our growth and pioneering categories grow up, pioneering particularly is largely the execution work to be done by us. So therefore, we therefore, get a bit of a benefit of that compared to some of the other organizations.

I think on the second part of your question on our own consumer products business, which is not classic FMCG, but consumer products business. Has there been some impact? The answer is yes. I think in the first half of the year, if you look at our own consumer products business, you talked about Fevikwik, but even art and stationery, and some of those products, I think there has been a marginal impact. So, what you are hearing from everyone, the market conditions do have a play there. So that's the point.

Bharat Puri: Plus, Arnab, what we are not clear about, and that's why we are rather saying, let's see the third quarter. How much of this is due to really these physical factors, whether it was the election, the heatwave, the monsoon, and how much is genuinely demand subdued, we still don't have a fix. so, we have to say wait and watch. When we look at even October, it's not a buoyant October, it's not a depressed October. It's a normal October. So, we are not seeing this upsurge in festive demand, so on and so forth, etc, but we are not seeing it depressed either.

Arnab Mitra: Understood. That's very helpful Bharat and Sudhanshu. And just 1 last question. You've been doing extremely well in the B2B business for the last few quarters in terms of volume growth. If you could just help us understand is the underlying growth in those industries strong? Or is this more penetration or market share gain because you have certain lines of business which you are focusing on more versus in the past?

Sudhanshu Vats: Yes. You are absolutely right. I think our B2B business, we have been delivering consistently strong double-digit growth for, I think, past 3 or 4 quarters, if not longer, almost a year plus.

I think it's a combination. Again, if you look at our B2B business, I think there is in our industrial business and there is our project business. So, I think it's our strategic work which we have done on projects and the quality of execution which we are dialing up with every passing quarter. So, on the project side, we are seeing very robust growth, aided also by the construction and some of the things which are happening at macro level. So, I think that is one which is that we have seen very strong growth.

I will be in complete candor and which is like the spirit of Pidilite, I would also share with you that our industrial products business has delivered good growth, but some of this you are also seeing as a comparator because some of our industrial products business has an export component and has export to Western world, that business this year has improved considerably over previous year. So, there is a little bit of that impact as well. So therefore, that is my response to your question on B2B. But we are confident that going ahead, we will continue to drive our B2B businesses in strong double digits.

Moderator: Our next question is from the line of Anand Shah from Axis Capital.

Anand Shah: Just a couple of questions. Sir, firstly, on the domestic subsidiaries, the CBT business sort of was slower, sort of declined this quarter Y-o-Y. I mean you did highlight Nina. But that's the only way read through or anything else to read through here?

Bharat Puri: No, definitely. As far as domestic subsidiaries are concerned, the first 6 months has been challenging, the 2 big ones are Nina and ICA Pidilite. Both have faced challenges. Both again, these physical factors that we spoke about, the various areas. In our belief, again, in both these cases, we are fairly hopeful that you will see a far better second half than the first half given that these were largely local factors. But clearly, I would say, if there were 2 challenged businesses, these were the 2 challenged businesses in the first half.

Anand Shah: Yes. Got it. And just lastly on your employee cost. I mean, we have possibly seen a surge. And now again, I mean, even in H1, it was up substantially. I mean, is some of this sort of front-loading sort of building or investing more? Or I mean, eventually, do you expect with double-digit, you will see a lot of leverage here as well?

Bharat Puri: Yes, I think that's a great observation. Your observation is largely correct. What we remember in the last just 2.5 years, we've built some 19 new facilities. Now all facilities take time to ramp up before they come to even 75%, 80% capacity utilization. Plus given our model in growth and pioneer, while these categories will be gross margin attractive, we will always invest in both people and ASP upfront. So, this is part of our plan. Over time, you will keep seeing this moderate as we go forward as the turnover good. This is in one sense, I mean, I won't call it front-loading, I will just say this is all part of our preparation for future growth.

Moderator: Our next question is from the line of Tejash Shah from Avendus Spark Institutional Equities.

Tejash Shah: Sir, in the past 3-4 years, competition in waterproofing came from paints players as new joining there. Now with them focusing more on protecting their core, do you see competitive intensity in waterproofing decreasing? Or have they become more aggressive because the threat is on core, they are getting more aggressive on waterproofing side?

Bharat Puri: I think, again, that's a great question. But let me just split it into, I think your question is the right one. See, paint companies tend to strongly play in the repair and renovation segment. When people repair and renovate, they will waterproof and repaint largely at the same time. Most of the paint companies are not strong in the new construction area because at that point of time, the outlets that sell waterproofing are actually what we call the building material outlets, steel, cement, etc., and not the paint outlets.

Now over time, what has happened is most of the paint companies have introduced coatings and even the newer entrants that have come into the market have also got waterproofing coating. So, we're not seeing any decrease in intensity of waterproofing. It's now become part of their range and obviously, everybody is right now in this disruptive situation, trying to protect share, etc. So, you will see a certain amount of turmoil in the market, but I mean, is it substantially more than the past? The answer is no. Is it lesser? Definitely, the answer is no.

Tejash Shah: Got it. Sir, second, you have observed this industry for many years and looking at the profit pool and the way it is growing and the challenges that it has, do you see that it can accommodate this many new players? Or you see that consolidation is the only way to kind of make justification for the ROI that industry has been used to?

Bharat Puri: See, when you have a large deep-pocketed player with a substantial front-loaded investment coming in, you are going to see disruption for 12 to 18 months. There is no doubt about that. Finally, as I always put it if the current incumbents managed to continue to satisfy their consumers and customers a little more than the newer fellows, then like many new entrants into the paint market, you would see that this may not be a disruptive moment for the industry.

But if they don't, I definitely do think that there are too many players in the market, what will happen in the future? You guys are far better experts than we are in all this business of consolidation, etc. Will paint as an industry grow? The answer is yes. What will be the new normal, I think probably, this time post the festive season next year and next year, I presume Diwali will be in the third week of October. Post next year's festive season, you really know where the new normal is emerging.

Tejash Shah: Perfect. And sir, last one, if I may. You were candid about your view on demand environment. If I understood correctly, you seem cautiously optimistic. So just wanted to know, we are already midway into the festive season. Whatever sentiment you are making up right now, do you think that the signs of revival are there? Or you still wait for, let's say, Diwali to get over? Or somewhere around mid-3Q, you will have some more clarity on the demand?

Bharat Puri: I think, you will only have clarity frankly at the end of the third quarter. Everybody currently is basing things on hope. There is no evidence right now of what I would say, much more buoyant demand situation during the festive season. We are 10 days away, though I must say that remember the last 10 days of the festive season are very strong. But having said that, I mean, we are not seeing any major, like as if there was a lot of pending stuff that had to be completed and therefore, there is a rush. It is still a normal October. It is not a buoyant October.

Tejash Shah: Got it, sir. Very clear. Happy Diwali to the team in advance.

Moderator: Our next question is from Avi Mehta from Macquarie.

Avi Mehta: Most of the questions have been answered. I just had 1 basic question on the margin front. Now you have historically indicated this 20% to 24% steady-state range, with the first half EBITDA margin already ahead of that range, it's at 24.5%, would you say input costs are benign, would it be right to say that there's a higher possibility of us breaching that range? Obviously, things could change, but I'm just trying to understand how should we look at the margin front? That's all from my side.

Bharat Puri: No, Avi, I would not say that there is a very high possibility of breaching. You know that we don't manage margins on a quarter-by-quarter basis. Given the extended range, etc., we postponed a lot of promotional and advertising activity to the third and fourth quarters because it didn't make sense during that time. So therefore, you are also seeing, I mean, one of the reasons why our EBITDA is higher because of lower ASP spend. That will not actually happen in the third and fourth quarter. I presume without any black swan geopolitical events in the fourth quarter, we will be at the higher end of our margin range, but I don't see great possibilities of breaching it substantially.

Moderator: Our next question is from the line of Percy Panthaki from IIFL Securities Limited.

Percy Panthaki: Just a question on the growth. You mentioned that October month hasn't been any kind of blowout month, or any kind of delayed demand witnessed. So, would it be fair to say that unless something changes materially in the underlying demand environment, the volume growth in the second half should remain similar to what we have seen this quarter?

Sudhanshu Vats: I don't think I would put it like that. What I would say is that we have always stated that we would like to deliver double-digit underlying volume growth. And as you know, in the first half, we have delivered just shy of that 9%, very strong single digit. Now like we've been saying from the beginning on this call, depending on how the environment plays out, our plans and our attempts would be to stay to our double-digit underlying volume growth commitment. So, to that extent, we would like to have an uptick of what you've seen over first half. But a lot will also depend on what are the intrinsic demand positions, which both Bharat and I have spoken about on this call.

Percy Panthaki: Right. So, I understand the aspiration to have the double-digit volume growth, but the overall macro environment that we are in currently is very different. We can see, of course, not directly comparable categories, but we can see many of the consumer companies which have reported till now have reported extremely weak numbers, probably the weakest in a decade without any one-off event like de-mon or a COVID or something like that. So, in that context, would you still say that I can understand medium-term aspirations, but till the environment remains as is, would you still say that double-digit is a possibility?

Bharat Puri: See, remember, in our sector, I will take a step back. If I look at the headwinds, a lot of the headwinds in the first half, hopefully, we are not going to have these extreme weather events, be it the monsoon or heat. We are obviously not going to like face disruptions because of the elections, etc.. We also know that, and this is a statement of the fact, that the whole capital expenditure of the government is weighted very substantially to the second half. There is healthy construction activity. Overall, after all the dust has settled, it's a good monsoon, which should hopefully lead to an upsurge in rural incomes.

Now therefore, are we hopeful and are we planning? Yes. And it's not just aspiration. We believe that in these tougher times, we have delivered 9% UVG, stepping it up in second half is an imminent possibility. But as I said in the answer to another question on demand, frankly, this question will be best answered in January because by then, you know where the new normal has settled post Diwali.

Percy Panthaki: Got it. Secondly, I just wanted to understand in terms of the pricing, I mean, in the second half, would it be fair to say that if commodity remains where it is today, then your sales will be equal to UVG?

Bharat Puri: In fact, sales will be a little better than UVG because, obviously, we want better mix, so on and so forth. But yes, we don't see further possibilities of price decreases, etc. And you will now see a convergence and hopefully, slowly value outpacing volume.

Percy Panthaki: Got it. And lastly, I just wanted some more details on the paint venture. It's been now quite a few quarters since you have launched. And earlier when we used to ask, you used to say, just wait a couple of quarters, and we will share some more information. So, can you give some more colour on now sort of which states are you getting a decent traction into? In those states, what kind of market share roughly you have or anything of that sort that would help us understand how successful the foray has been?

Bharat Puri: See, my simple answer to you, which I answered, I think, Sonali, asked the same question. The festive season in the South, etc., will be Pongal, which is first week of or close to the 10th of Jan. Wait till therefore, we go through 1 full cycle and then let's come back to you. We are in no hurry. As we have said that, listen, we are not into this big bang approach.

We are not setting up factories across every nook and corner of India and then giving away products free. We believe we have a right to win in small town and rural India. We are proceeding at our pace. All I can tell you is, as of now, we are happy and satisfied by what we are doing. But more colour and more further plan, wait till we get over the festive season of the South.

Percy Panthaki: Fair enough. But just, the reason why I asked is, I just wanted to understand in the current numbers and the growth that we have, let's say, 7%, 8% kind of growth that we have done. Is it that, let's say, 2%, 3% is coming from this new venture? And excluding that, the growth will be lower?

Bharat Puri: No. I want to explain to you, we are in 4 states in rural and semi-urban. Semi-urban is 30% of the total market, right? So, 70% of those state also we are not in. These 4 states will be less than 1/3 of India. I mean, even if we did extremely well here, we would not make any significant difference to our growth rates.

Moderator: Our next question is from line of Rahul Maheshwari from Ambit Asset Management.

Rahul Maheshwari: I had just 1 question. As you mentioned in your earlier remarks that the growth and the pioneer categories are growing faster than the core categories. Can you give us some more details in terms of range, how much fast it's growing? And what are the brands which are driving the growth? And any pipeline that you can highlight that how many further subcategories of brands you would be able to add? That will be very helpful.

Bharat Puri: See, Rahul, very simply put, we will not tell you about future pipelines, etc. because that is of more interest to my competition than to anybody else.

Rahul Maheshwari: No, in terms of numbers, I'm asking.

Bharat Puri: In terms of numbers, we are clear. We have always said that core category should grow around GDP, and growth category should be 2 to 4x GDP. Pioneer categories, we don't have a target. We want them to be in 3 years, achieve a certain minimum size so they can become a growth category. As of now, therefore, if you look at our business, it is spread now 55% core, 45% growth. Largely, again, plus/minus 10% exactly meeting these numbers. So, we are according to plan.

If you look at, for example, the core categories that would include wood adhesives like Fevicol, Fevikwik, M-Seal. If you look at the growth categories, it will include waterproofing, it will include tile adhesives. It will include the joinery segment, it will include what we call also growth geographies, which is rural India. So, we have got a whole set of stuff. We are one of the few companies, the question hasn't been asked.

This is now the third year where rural for us is growing twice urban. Everybody else has been complaining about rural, and now urban has got challenged, so people have forgotten rural, but the so-called turnaround in rural that we are still talking around is little or nil growth becoming 2% and 3%. In our case, rural is being twice urban growth.

Rahul Maheshwari: If you don't mind, sir, what is that only you were able to grow 2x means what are 2-3 success factors which has made Pidilite grow 2x of rural of urban, sir? Can you comment on that?

Bharat Puri: Yes, I will definitely tell. See, first, it's just the categories that we have. I mean it's not that we are much smarter than all our friends in the FMCG sector. Our scope for penetration, Rahul, is much, much higher. I mean, we have such a vast portfolio. And in our portfolio, making our products just available is of no use. We have to teach people how to waterproof, how to use tile adhesive, how to put wood together.

So, we, about 5 years back, created a new division called Emerging India, which actually aggregates all the Pidilite products for rural and semi-urban India. We have substantially therefore, invested behind brand building, behind education of intermediaries and the retail universe. I mean, you all know of our initiative called Pidilite Ki Duniya. We have added 1,000 Pidilite Ki Duniyas just in the first 6 months of this year.

We now have 15,000 Pidilite Ki Duniyas, which are retail stores in villages with a population of 5000 to 15,000. So, we have consistently believed because of the penetration data that equalizes for income, we have a greater opportunity, but it will take a lot of doing to capitalize on that opportunity. I would say and without trying to pack ourselves on the back, in the home improvement sector, we would be by far the deepest penetrated company by a long distance.

Rahul Maheshwari: Okay. Sir, just a follow-up question. Can you give how much distribution expansion you are making or any target in terms of percentage? Will it be in line with the sales growth? Or can you give some color in terms of how the mix approach you are taking from a distribution point of view?

Sudhanshu Vats: So, when we look at distribution, like Bharat was telling you, so he talked about Pidilite Ki Duniya, which is our both presence and demand generation. But in terms of our absolute coverage of outlet, we now cover close to about 6 lakh outlets in the country. And even in the quarter which has gone by, we have expanded by about 5%. So, we've added close to about 30,000 outlets.

Much of it will be in the smaller towns and rural, but that's a continuous expansion. But for us, distribution expansion is also about improving the range of our products as we go to these outlets. And as you know, Pidilite has a very wide range. And that is another factor which we measure, KPI of range sales index, and that we keep growing as we go forward. I think we've made progress on that as well.

Rahul Maheshwari: But any run rate of growth in distribution as of the shops etc. that you are telling? Any target that you are keeping into mind from 2-3 years' perspective, where you want to reach from overall distribution point of view?

Bharat Puri: See, we have clear targets like, for example, at every town from 0 to 10,000 here or so, many villages, this is where we reach, and this is the range that reaches. So, we have targets across all town classes, which Emerging India does. And at a broad level, as Sudhanshu says, every year, we hope in a numerical sense to improve our distribution anywhere between 12% and 20%.

But numerical alone is not important because in our current distribution, there is an equal opportunity in increasing range. I mean, I'll give you a simple example. When we took over Araldite, it had very little sales in emerging and rural India. Now Araldite, if you go to the smallest of the small towns, you will find it available. One of the reasons why we have doubled Araldite over 3.5 years that we have acquired is just our distribution clout.

Moderator: Our next question is from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: Actually, I was very intrigued with the comment, which Mr. Puri made about operating in 37 verticals. And then obviously, you gave the details around the categories. And the question I have is, seeing the success in terms of so many categories we have done over the years, what are the key synergies you see when you think of getting into different spaces or categories or even into adjacencies? And what according to you is the biggest challenge when we are managing so many categories?

Bharat Puri: See, I think that's a great question, Sheela. Firstly, good to hear you after long. Very simply, we have a very clear model. When we look at adjacencies between consumer, customer, which therefore, is the channel, consumer, channel and technology, we must have the right to win in at least 2 of the 3. Then we consider that as an adjacency. So, like the best example I'll give you is we started with tile adhesives.

With tiles adhesives, you need tile grouts because that's what holds the tiles together, those are what you see as the lines between the tiles. After we did tile grouts, we realized that there are other surfaces, stone and marble. Therefore, we did Tenax, and we became stone and marble. Then we realize there's a need not only for fixing them, but also maintaining them. Therefore, we did cleaners for these.

So, like this, what we try and do is between consumer, channel and the technology, we must have a winning position in 2. And that's how we keep identifying adjacencies. What we also have done over a period of time, 2 of our senior most managers who were CEOs of businesses, currently spend 100% of their time identifying new businesses because if our model is that of a pioneer, we're a company that creates new categories on a consistent basis, then we must be studying the world for these categories and we study a whole set of affinity markets. And what you see in the marketplace is after a fairly rigorous evaluation and testing when we go out into the market.

Sheela Rathi: And anything around the challenges which we face because I am sure there would be some?

Bharat Puri: There are significant challenges because in a lot of these, you have to learn the technology, you have to learn the application. I mean, we put up this factory. I'll give you a simple example. For what is that exterior plaster-cum-paint. You don't have to do any plaster, putty or paint. All of it does together. This is now very popular in Southern Europe. Understanding how it will be applied in India by the Indian mason. Will it be the mason, or will it be the painter? How will it be done?

So, remember, as a pioneer, you will generally take a longer to do the category. But once you do the category, you become associated with the category and therefore, almost because the category definers. We know that model, we follow it fairly rigorously. The challenges and as you rightly said, also making sure that it gets enough management attention, it also gets the right resources, which is why our buckets of core growth in pioneer. We have clear investment criteria for core, growth and pioneer. We have clear people and advertising allocation for these based on their position. So over time has evolved a model which is internal to us.

Sheela Rathi: Do we think we are still in a position to add another 30 verticals? Or how are we positioned for that?

Bharat Puri: Without any doubt. Every year, we will add at least 2 large verticals and within those verticals, smaller ones because, frankly, that's the lovely thing about India as a market. Let me give you a simple example. Tile adhesives, even today, 1 in 4 consumers uses any tile adhesive: 3 out of 4 use standard cement. Now similarly, grouts, they use white cement.

They don't use the grout at all. Now this is long term and with the 3 India's approach, what I call premium India, middle India and aspirant India, you need products for all 3. So therefore, at any point of time, as we talk today, we will be studying at least 15 different verticals.

Moderator: Our next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance Company.

Keyur Pandya: Just 1 question. So, on the gross margin side, if you look at the VAM as a representative of raw material, I mean from $980 probably, it is still trading at lower prices. So, you always talked about, say, reinvesting for growth. Now when you are talking about, say, there is some possible slowdown or lull. Is it possible to reinvest even from such high levels of investment in A&P in last year? Or is it better to take that in the pocket when additional investment may or may not yield additional, say, growth in near term? So just thought on balance between margin and growth, especially from the perspective of already high investment that you are doing for last 1, 1.5 years?

Sudhanshu Vats: Thanks for the question Keyur, good question. I think, see, the way we look at market and we define ourselves as a pioneering company. So, we look at opportunities all the time. So, for us, there are always opportunities to invest and opportunities to build category. And when you build categories, you are over-indexation on investment is there, as we have talked through this call and Bharat talks about it all the time. So, for us, the market being a little dull or being very buoyant, is totally independent to our desire to build categories. So therefore, that and because India has such strong runway across many of the categories or if not all the categories that we operate in, I think there is always room for us to keep on building.

Anecdotally, I wanted to tell you, Roff recently has a property which comes with basically the kabaddi league. And it depends on when the kabaddi league is there, property will get x, y and z so that ASP will come in. But that I'm just telling you, therefore, our investments are going to continue to be what is right for the brand, what is right for building the categories. And wherever we want to get into some more longer-term pioneering effort, those investments will be there. And we will make those investments in the right form. So, I wouldn't look at it the way you are looking at it.

Bharat Puri: Even if you look at the simple things, one of your colleagues asked a question on people and the increase, which is clearly, again, a strong and very significant investment into growth.

Keyur Pandya: Understood. Noted. Just 1 last question. I mean, so what would the VAM prices right now?

Bharat Puri: See, what we are buying currently is between $800 and $900 depending on the timing, so on and so forth, etc.. At an overall level, while VAM has softened, there are some other prices that have gone up. So, at an overall index, we are pretty much in the same range, we will be in quarter 3. Quarter 3 will be very similar to quarter 2.

Moderator: Our next question is from the line of Krishnendu Saha from Quantum AMC.

Krishnendu Saha: I am very new to the company. So just trying to understand the business. You launched pioneer products, 2 or 3 products every year. So, in the last 4-5 years, how many have you actually stopped, or you thought the success was not good or up to the mark, so you have to recall the product or you have to stop producing that category. How many would that be?

Bharat Puri: See, Krishnendu, again, that's a great question. See before we launched the product, we have a concept of piloting product. We pilot in very restricted geographies; we are a very patient company. I mean if you want to be a pioneer, then you have to be a learning company. So, we don't launch anything extensively, we will first pilot it in a geography, then we will pilot it in a state, then we'll pilot it in a region before we go all-India.

And again, we use the pilot for learning. So, there are many pilots which go back. We reformulate the product. Again, we need to make some changes in the application process. We make those. So, it's an ongoing process. In all new stuff, where if you have a success rate of over 70%-75% is a great success ratio. And that's what we try and remain at.

Krishnendu Saha: So, we have a high success rate, right. And just to understand a little bit more, rural or emerging market is growing faster in my understanding, because we have offered Pidilite Ki Duniya on the faster track. Is that will being one of the core reasons the rural volume-wise and growing faster? Is that understanding right?

Sudhanshu Vats: So Krishnendu, there are multiple parts to it. It may be very simplistic to say that just because you are opening more PKDs, your rural growth is going up. PKD is an integral and an important element of one of our things as we go deeper into rural India and smaller villages. But at the same time, as we were talking through this call multiple times, I think it's about distribution expansion, it's about range, it's about demand creation in some of these places because, again, let me tell you, all across India, most of our categories need a lot of work with the applicators or users to create demand.

I think that work has to continue for us to be able to deliver growth. So, the good news is that these categories need to be created. The demand for that needs to be created. Applicators need to be trained and so on and so forth. So, all of that, it's a summation of many of these things and not just 1 single initiative. It's an important initiative. It's some kind of a surrogate or an indicator kind of an initiative as to how we do combine sales and demand planning. But that's not the only thing which sort of delivers that kind of growth.

Krishnendu Saha: Right. And it also helps has because you have a high success rate of 80% of new pioneer products we launch.. And last thing, when you open a Pidilite Ki Duniya outlet, does it carry all your products at the same outlet? Or like it's come in stages? How do you go about that when you open up the PKD?

Sudhanshu Vats: So Pidilite Ki Duniya, by definition, does carry most of Pidilite products because it's a one Pidilite. But over a period of time, you build an assortment. And you also build an assortment, which in our judgment is right assortment for that particular village or that particular small town. So, I think, yes, by definition, do we have most of Pidilite products? Is it like a one Pidilite approach? The answer is yes. But do you carry all your products all the time to all PKDs? The answer is no. You sort of build it over a period of time, assess what is the right assortment and then do it.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management.

Sandeep Batra: Thank you very much to everybody for their continued interest in Pidilite. And as we sign off, wish each on the call and their families, very best wishes for the festive season. Thank you.

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

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