



“Finolex Industries Limited  
Q2 FY '24 Earnings Conference Call”  
October 23, 2023



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**MODERATOR: MR. ARUN BAID – ICICI SECURITIES**

**Moderator:** Gentlemen, good day, and welcome to Finolex Industries Q2 FY '24 Earnings Conference Call hosted by ICICI Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Baid. Thank you, and over to you, sir.

**Arun Baid:** Good morning, ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Q2 FY '24 Post Results Con Call of Finolex Industries. From the management side, we have Mr. Ajit, MD; and Mr. Niraj, CFO.

Now I hand over the call to Ajit for opening remarks, post which the floor will be open for Q&A. Thanks. Over to you, Ajit.

**Ajit Venkataraman:** Thank you, Arun. Good morning, ladies and gentlemen. Greetings for the festival season for Navaratri and Dussehra. Welcome to the investor conference call for Q2 FY '24 Earnings Release. We thank you all for continued support and interest in Finolex Industries Limited. Q2 FY '24 continues to witness a volume growth on a year-on-year basis on the back of continued improvement in demand largely from the plumbing and sanitation segment. Operating performance also witnessed a substantial improvement during the quarter.

Let me give you some of the performance indicators for the second quarter, Q2 FY '24 highlights. Total income from operations was INR883.15 crores for Q2 FY '24, down 6.16% against INR941.13 crores in Q2 FY '23. EBITDA for the company stood at INR102.98 crores for FY '24 Q2 against EBITDA loss of INR142.67 crores for Q2 FY '23. EBITDA margins during this quarter increased on a year-on-year basis of 11.66% compared to a negative margin of 15.16% in corresponding previous quarter of Q2 FY '23. The company reported profit after tax of INR93.78 crores in Q2 FY '24 as compared to a loss of INR93.92 crores in Q2 FY '23.

Now getting into the segmental performance, the Pipes and Fittings. Pipes and Fittings revenue increased by 7% to INR857.15 crores in Q2 FY '24 from INR801.73 crores in Q2 FY '23. Volume in Pipes and Fittings segment reported a growth of 6% year-on-year to 62,914 metric tons in Q2 FY '24 against 59,218 metric tons in the corresponding last quarter. The EBIT in Pipes and Fittings segment was INR67.60 crores in Q2 FY '24, compared to EBIT loss of INR47.63 crores in Q2 FY '23.

Moving to PVC Resin segment. Revenue in the resin segment decreased 38% year-on-year to INR297.85 crores in Q2 FY '24 to INR481.07 crores in Q2 FY '23. The volume in resin segment decreased 31% to 37,516 metric tons in Q2 FY '24 against 54,063 metric tons in Q2 FY '23. EBIT in resin segment was INR20.40 crores in Q2 FY '24, compared to a loss of INR110.68 crores in the corresponding previous year. The company continues to have a strong balance sheet with a cash surplus of roughly INR1,500 crores as on 30th September '23.

Let me now leave the floor open to questions. Thank you.

**Moderator:** Thank you so much sir. We have the first question from the line of Mr. Achal Lohade from JM Financial. Please go ahead.

- Achal Lohade:** Can you help us understand if there was any inventory gain in 2Q? And given the current PVC prices, do you look at inventory loss in both the resin as well as piping segment?
- Niraj Kedia:** So in Q2, overall, the prices of PVC went up by INR4 during the quarter, starting from mid-July to August. So there was marginal inventory gain, but not very material. And the prices, which fell subsequently, that price fall started 30th September, 1st October onwards. So that for the quarter, there was no material inventory loss per se.
- Achal Lohade:** And given, what has happened in the first 3 weeks of the month, and if we assume the current price sustains, could there be a substantial inventory loss?
- Niraj Kedia:** Not substantial, but yes, some inventory loss will be there. Because see, the prices fell very sharply in a matter of 7- 8 days, they went down by INR11. The positive thing is that this morning, the prices have gone up by INR1. So that fall it seems have been arrested. But we'll see how it pans out.
- Achal Lohade:** Understood. In terms of the CPVC price, we see that the prices have come off. Is it possible for you to kind of give us some sense in terms of what is the extent of price reduction? And do you see further price reduction in terms of the raw material price for CPVC?
- Niraj Kedia:** Yes. So yes, prices have come down for CPVC. But unlike PVC, there is no standard benchmark, which kind of goes for CPVC, so we cannot give you any specific numbers see how much. But roughly, we can say that 5% prices have come off very recently.
- Achal Lohade:** And has that caused any inventory loss?
- Niraj Kedia:** No, not material. No, not material.
- Achal Lohade:** Understood. So that anti-dumping duty on the Korean and Chinese CPVC resins, that's coming up for renewal stroke expiry in next year. So if theoretically, it was to go away, how do you see it impacting the industry enough?
- Niraj Kedia:** If it goes away, frankly, I would personally see it as a positive for the pipe makers, because obviously, the raw material becomes cheaper. So from a pipe makers perspective, it would be a positive move in my view.
- Achal Lohade:** And as we speak, are we sourcing entirely from overseas or we are buying local as well, CPVC?
- Niraj Kedia:** We are buying locally also and importing as well.
- Achal Lohade:** Would it be possible to tell us the mix, sir?
- Niraj Kedia:** Not really. And there is no fixed mix. It keeps changing. See, for CPVC, we have multiple suppliers. And depending on pricing and our requirements, orders are placed. So we don't have any quantity commitments with any of the suppliers. So that mix keeps changing, Achal.
- Achal Lohade:** And is there a price difference between the local and the imports? And if yes, could you quantify, sir?

- Niraj Kedia:** There is a small difference, but not material.
- Achal Lohade:** Okay. Understood. In terms of the spreads, if you could help us in terms of the prices and the spreads for PVC, EDC, VCM for the second quarter and the current one?
- Niraj Kedia:** Yes. So for Q2, PVC was at \$847, EDC was at \$276 and VCM was average \$690. The PVC/EDC delta for second quarter was \$571. And the PVC/VCM delta was \$157.
- Achal Lohade:** And as we speak currently?
- Niraj Kedia:** I have last week's numbers with me. I don't have today's number, because prices have again changed, but PVC was at \$770, EDC was at \$320, VCM was at \$675, the PVC/EDC delta today is \$450. And the VCM/PVC delta is \$95.
- Achal Lohade:** Understood. Understood. And just last question and I'll fall back in the queue again. With respect to the volume guidance for the full year, if it is possible to give us?
- Niraj Kedia:** So 15% is something that we are very confident of, 15% to 20% growth in Pipes and Fittings segment should be there.
- Achal Lohade:** And given what has happened in the first half, you think that is a conservative number or that is...?
- Niraj Kedia:** No. That is something that we are confident would happen. It's not very conservative.
- Moderator:** The next question is from the line of Rahul Agarwal from Incred Capital.
- Rahul Agarwal:** Few questions. Firstly, what happened to resin production. Could you just please explain? I think, obviously, the number looks pretty low. So there has to be a reason for that.
- Ajit Venkataraman:** So thanks for your question, Rahul. We had supply issues, especially due to major breakdowns in Middle East suppliers. And as a result, the supply of EDC and VCM were constrained. And as a result, there was a drop in resin production.
- Rahul Agarwal:** Is that sorted now?
- Ajit Venkataraman:** Yes, it is in the process of getting sorted. So overall for the year, we expect that overall resin production will not be to the extent what has been produced in the past. We expect anywhere between 200,000 and 220,000 metric tons.
- Rahul Agarwal:** All right. Similarly for pipes, I think the company should have done better, what is our reading there and outlook, I think you've already discussed 15%, 20% pipes and fitting growth. But just in terms of 2Q, are you happy with what has happened? And how do you see October panning out?
- Ajit Venkataraman:** So Rahul, for the movement, which we were expecting, to have more contribution coming from the plumbing and sanitation segment, that we're well on the way. You would have noticed what Niraj just mentioned. There was volatility in the resin prices, and it was a downward movement.

And the price-sensitive segment, which constitutes a higher percentage of our business, which is the agri segment. There was a little bit of hesitation on the part of the network and the customers pulling in or making purchases as they were anticipating a price drop. And therefore, you see a 6% to 7% growth. Otherwise, in terms of non-agri segment or plumbing and sanitation segment, we have seen a significant growth.

**Rahul Agarwal:** So first half non-agri mix would be like how much of the company and if you could help me with the Y-o-Y trend, please, in terms of mix?

**Niraj Kedia:** So Q2, our mix was 40-60 non-agri and agri. Last year, same period, it was 37%.

**Rahul Agarwal:** This is volume.

**Niraj Kedia:** Volume, yes.

**Rahul Agarwal:** How about first half?

**Niraj Kedia:** First half, it is 32%. And last year, it was 30%. See, generally, Q2 being slow in agri, our non-agri as a ratio is better. But what we have seen this quarter has been the best of all the quarters so far. And as Ajit said, our growth in non-agri has been much, much more as compared to agri.

**Rahul Agarwal:** Go ahead, sir. And last question, any decisions taken on either capex or the way you're building up the channel, new product launches or dividend payout that we should know of?

**Ajit Venkataraman:** See, Rahul, we will announce it, but we are actively looking for expansion definitely, because we will be running out of our capacity in the next couple of years. So several projects in the pipeline, but we will announce it once it fructifies, yes.

**Moderator:** The next question is from the line of Bhavin Pande from Athena Investments.

**Bhavin Pande:** Yes, sure. Just one thing. So a lot of marketing initiatives we are taking. So I mean what we approach to just -- I mean, increased market share? Or like how are we going about it? And what sort of payback period we can look at this?

**Ajit Venkataraman:** So in terms of focus is especially on growing the non-agri segment, because we are fairly strong in the agri segment. So we have targeted cities and states, which we are going after for the non-agri sales. And we have segregated -- this is on an organization basis. We have segregated our teams into 2 focused areas. So that is something which has happened over the last financial year. So which is starting to bear fruit right now.

And in terms of spends, we are going very, very focused on specific target segments. And our connect with the influencer community, which is extremely important for the non-agri or the plumbing and sanitation segment, has increased significantly as well, including several engagement programs, which has been initiated up late.

**Bhavin Pande:** Okay. And finally, if you have already mentioned it and I missed it, but what attributes to this Q-on-Q decline in volume?

- Niraj Kedia:** So this is, say, Q1 and Q4, generally the peak seasons. That is when the agri demand is at the highest. So if you're talking sequentially, Q2 has always traditionally been poor, because volumes dropped because of monsoons. Pipes cannot be laid, even the construction activity kind of slows down. So you typically generally find Q2 being slower than Q1.
- Bhavin Pande:** Okay. Okay. But in terms of the top line, if you look at on Y-o-Y basis, there's some decline. So -- and that's why I was just wondering. Was the best Q2 was in last Q2, something like that?
- Niraj Kedia:** So see, on a value term, if you're comparing with last year, our volumes are up in the Pipes and Fittings segment, but PVC prices have corrected since then. So if you remember, Q2 last year was actually not a very good quarter for us. We lost a lot of money, because PVC prices fell very sharply and they kind of reached normal levels. So when you look at the top line number, there is an impact of the reduction in PVC prices.
- Bhavin Pande:** Okay. Okay. Wonderful. And just one last thing, what was agri and non-agri mix for this quarter?
- Niraj Kedia:** 60-40. 60 agri, 40 non-agri.
- Bhavin Pande:** Okay. And how has it moved Y-o-Y as well as Q-o-Q?
- Niraj Kedia:** So last year, same period, it was 63-37.
- Moderator:** The next question is from the line of Ritesh Shah from Investec.
- Ritesh Shah:** A couple of questions. So first is, how should we read into a volume growth? 6% looks pretty low. The context in which I would seek to answer over here is, does the management look at volume growth with respect to peers or from a market share standpoint? I do understand we do not take direct government orders, but if we look at from a presumptive basis, this looks a tad lower. How should we read into this, sir?
- Ajit Venkataraman:** So thanks for your question, Ritesh. See, the volume growth, which we have seen for the Pipes and Fittings segment of almost 6% year-on-year. What I would also suggest is that, see, if you are looking at the product mix, a significant portion of our -- as Niraj mentioned, 60% of our volumes come from agri segment. And agri segment is a much more price-sensitive segment. And in anticipation of the PVC price drop, many of the purchases were postponed.
- And as a result, it has impacted the overall volumes. And that is one of the significant impact that you see that it is at 6%. Once the price stabilizes and given the moderate rainfall this year, we expect that the volumes in the agri segment is likely to grow from here on based on the assumption that the PVC prices will stabilize.
- Ritesh Shah:** Okay. Sir, if I put it the other way. So we also see inventory built up in the system. Had it not been for this inventory buildup, which I presume it's probably on back of destocking the channel, what sort of volume growth we could have probably seen?
- Ajit Venkataraman:** You are referring to in terms of if the price movement was not there, what would have been the volume movement?

- Ritesh Shah:** Sir, I'm referring to -- so there is inventory which has moved up for us. So I presume that is with respect to the prices going down, demand being a bit slow. Had that decline not been there or inventory stocking not been there, what sort of volume growth we would have probably seen?
- Niraj Kedia:** We would have seen at least 20% to 23% growth in this quarter.
- Ritesh Shah:** Okay. And sir, you indicated this is something, which is specific to us or this would be industry-wide phenomena wherein the inventories have actually moved up because of the price declines?
- Moderator:** Sir, I think the line got disconnected. Please stay on the line. Ladies and gentlemen, I'm really sorry for the inconvenience. But we have now joined the management line. So sir, Mr. Shah, you can please complete your question.
- Ritesh Shah:** Yes, Sir, I had a few other questions. I'm audible, sir?
- Ajit Venkataraman:** Yes, Ritesh.
- Ritesh Shah:** Sir, any incremental color on the credit days, which I think has marginally increased? That is one. That's the second question. I have a third question for Ajit sir as well.
- Niraj Kedia:** No. So -- there is -- see, working capital, I mean, there is a slight increase in this quarter. But fundamentally, nothing has changed. So this should normalize as we have been overhead into the year. There's no strategic or tactic shift, which has happened in credit terms.
- Ritesh Shah:** Okay. So sir, just to understand on PVC agri pipes, it still continues to remain cash and carry for us, right?
- Niraj Kedia:** Yes.
- Ritesh Shah:** And on CPVC, what sort of credit do we give in the market there?
- Niraj Kedia:** There is no separate credit for CPVC versus other non-agri. So see anyways -- maybe even when you're giving us credit, it's to the participate dealers, then it becomes slightly difficult to segregate for CPVC so much for this. So generally it is 30 to 60 days, which is given for all plumbing candidates.
- Ritesh Shah:** Okay. That is helpful. And sir, last question is on competitive intensity in the marketplace. One of the larger South Indian players, I think they are facing a lot of challenges internally into the company. They are pretty strong in column pipes. Finolex also has had always a presence in column pipes since quite some time. So are we reaping any benefits? Or do we see any gradual benefits to accrue to us over the time line, be it on the loyalty of the dealers changing towards us? Anything on that sort, sir?
- Ajit Venkataraman:** So Ritesh, our focus has been in column and casing pipes. And we have been strengthening that going forward. And as a result, we do expect an uptick for us.
- Ritesh Shah:** Sure. And sir, lastly, on capital allocation, we have a huge cash balance. I think since Mr. Anil Whabi's (Ex-MD) days, we have been hearing that next quarter or so next year, we'll hear

something on capital allocation, either capex or payout. Sir, any firm time line over here by when we can expect the use of funds?

**Ajit Venkataraman:** See Ritesh, to be very honest, we do need expansion of our capacities in the next couple of years, because we expect our volumes to -- our capacities to max out. And once we have figured that one out, we will be moving the rest of the remaining cash to the shareholders, but we will have to fix our capex first.

**Moderator:** The next question is from the line of Mr. Vipulkumar Shah from Sumangal Investment.

**Vipulkumar Shah:** Sir, this 60-40 agri/non-agri mix, is it volume-wise, right, sir?

**Niraj Kedia:** Yes, volume wise.

**Vipulkumar Shah:** So any color on value-wise mix?

**Niraj Kedia:** No, generally, we don't share, because they are not separate subsegments. So volume is something that we feel is a good indicator.

**Vipulkumar Shah:** Okay. And can you share CPVC volume and what was the same last year corresponding quarter?

**Niraj. Kedia:** We don't give CPVC and other subsegment-wise numbers.

**Vipulkumar Shah:** Previously, you have shared.

**Niraj Kedia:** So 2 quarters ago, we stopped doing that, because these are not separate segments for us. So polymer wise, we felt it is not right to share.

**Vipulkumar Shah:** So at least directionally, you can say what is the year-over-year growth in CPVC segment?

**Niraj Kedia:** It is better than overall non-agri I can say that.

**Vipulkumar Shah:** Better than overall non-agri, right?

**Ajit Venkataraman:** So CPVC has been growing faster. This has been a faster growing segment.

**Moderator:** The next question is from the line of Mr. Udit Gajiwala from Yes Securities.

**Udit Gajiwala:** Sir, firstly, on the resin front, where do you see the stability in the resin prices coming. So you are still sorting out the issues of the supplier. So a steady quarter, hopefully should be from Q4. Is that understanding correct?

**Niraj Kedia:** Yes, even I also concur with your view. By Q4 is, again, my personal view that we should see some sort of normalization in the profitability in the resin segment.

**Udit Gajiwala:** Sir for full year, what kind of EBIT per kg are you expecting for the resin's front?

**Niraj Kedia:** We should -- around INR7 to INR8 for the full year's average.



- Udit Gajiwala:** Got it. And sir, secondly, on the pipes, your previous comments suggest that in the H2, so the plumbing mix will be much higher than agri. So in that pipe business, do we see any improvement in EBIT per kg? And similarly, what will be your full year guidance for that segment?
- Niraj Kedia:** For the full year, the Pipe segment, we should be between the INR10 to INR12 mark.
- Udit Gajiwala:** Okay. And sir, just directionally in the next 2, 3 years, when we are expecting to grow our non-agri portfolio at a faster pace. So how do you see these numbers for EBIT per kg moving in pipes segment specifically? We also have a capex cost that will be coming up if you are planning accordingly.
- Niraj Kedia:** Yes. See, gradually with our improvement in the non-agri business, this EBIT in the pipes segment should move towards INR14.
- Moderator:** The next question is from the line of Rahul Agarwal from Incred Capital.
- Rahul Agarwal:** On the new fitting plant, the 12,000 tons, which you put, what was the utilization in 2Q and first half?
- Ajit Venkataraman:** So the plant capacity is approximately 900 to 1,000 metric tons at this point of time. And our utilization has been upwards of 60%.
- Rahul Agarwal:** Got it. And Niraj, just one thing on the resin. I think the spreads are down Q-o-Q, right? I mean the delta you mentioned currently versus last month. I understand that the entire quarter is yet to go through, but the guidance that you're giving INR7 to INR8 a kg, I think first half average is about INR3. Isn't that too optimistic to achieve that INR8 a kg for resin?
- Niraj Kedia:** See my view is as follows, Rahul. Again, you're right, because we don't control how commodity prices move. But see my view is VCM, I feel that it should correct more before the next one starts. So that should kind of help us improve. A lot of this also is impacted by when are we buying the stock. So if you see this month, we have probably just taken this 1 vessel. We'll probably take 2 vessels. And if you look at the volume terms for the first half in resin, we have done roughly -- so of the 220,000 tons that we have to do in resin, a larger volume will happen in the second half. So that should kind of help us.
- Rahul Agarwal:** Got it, sir. And one question was on the supplier issues. Essentially, the guy couldn't supply, and obviously, it's a profitable quarter for us. I don't know how the contracts are signed with them, but is there any compensation which you're liable for? Would you claim for that? Or is it something that we have to let go?
- Niraj Kedia:** See this is generally force majeure clauses are there? He did not -- he could not -- based on that he did not supply, could not supply.
- Ajit Venkataraman:** Yes, they had a change in technology, and they did not anticipate it taking this long for the restart-up of plant. And that was one of the reasons why we had to -- we did not get some of the shipments.

- Rahul Agarwal:** So I don't know about a long history here, but essentially, so it doesn't mean that we are liable to any compensation from them, right?
- Niraj Kedia:** No, not in this particular instance.
- Rahul Agarwal:** Got it. And lastly, CPVC volumes and fittings. I know that you don't share it, but could you give some positive flavor in terms of growth for 2Q and first half for CPVC and fitting, please?
- Niraj Kedia:** Fittings also helps -- the overall growth of fittings has been higher than overall non-agri growth, okay? As a ratio also, fittings have improved substantially, I would say, 3 to -- 3 basis points as compared to last year.
- Rahul Agarwal:** And CPVC growth just pure in terms of growth, 2Q or first half, whatever you could share?
- Niraj Kedia:** So it is better than the non-agri growth, overall growth of CPVC.
- Moderator:** The next question is from the line of Ritesh Shah from Investec.
- Ritesh Shah:** Sir, if you could just highlight how much is our total fittings capacity right now? And out of the total volumes that we do, what part of it is captive? And is there contribution from outsourcing still element over there?
- Niraj Kedia:** So we have roughly 48,000 tons of capacity in fittings. Of this, 12,000 is what we have in-house capacity right now. And balance is outsourced, but it's captive. I mean, for only Finolex use.
- Ritesh Shah:** Okay. And what Ajit sir indicated in my prior question that we will look at incremental capex. Is this something which is going to be more only towards pipes and fittings, and there won't be anything for sure on the upstream side, either towards the jetty or PVC/VCM mass balancing over there?
- Niraj Kedia:** Yes.
- Ritesh Shah:** So should I assume that the entire is going to be on the Pipes and Fittings side, nothing else?
- Niraj Kedia:** Yes.
- Ritesh Shah:** Okay. Perfect. And sir, lastly, any update on the land bank? I think a part of the land parcel is still there, which is still yet to be monetized.
- Niraj Kedia:** No. We are still in talks to be honest. We were hopeful of closing 1 transaction, but we have not been able to close this yet. But most likely, again, my view by end of this year, one more substantial turn we should be able to dispose.
- Ritesh Shah:** Okay. Sir, I'll just try my luck. Would you like to comment anything on Finolex Industries, Finolex Cables? Does it impact the company in any which ways?

- Ajit Venkataraman:** So Ritesh, as you always know, it's an independent company. As a management team, we are focused on our performance. What happens at the promoter level is something which we don't get into. And for us, it will not be appropriate to comment on that.
- Moderator:** The next question is from the line of Abhishek Ghosh from DSP.
- Abhishek Ghosh:** Sir, just one question. In terms of the other expenses as a percentage of revenue has seems to moved up. So is it because of ad spend? Or is there any other spend that's sitting there?
- Niraj Kedia:** Yes Abhishek, this ratio seems probably higher, because of the lower top line. And I'm assuming you're comparing this with Q1?
- Abhishek Ghosh:** Yes. But where I'm coming from is if you broadly look at your quarter, there you have lower revenues. You also see a decline in other expenses. This quarter, you have not seen any decline in other expenses despite a lower top line. So that's the only thing that we are looking at.
- Niraj Kedia:** No.
- Abhishek Ghosh:** So you say historically, your other expenses as a percentage of revenues more like 19%, is more like 23% in the current quarter. So that is there.
- Niraj Kedia:** So some advertising spend has come up. So that is reason why you see an increase.
- Abhishek Ghosh:** So Q-on-Q also, you have seen higher ad spend?
- Niraj Kedia:** Yes.
- Abhishek Ghosh:** Okay. Okay. And is it more focused towards -- there should be more focused towards the plumbing part of the business, right?
- Niraj Kedia:** Yes, yes, it is correct.
- Abhishek Ghosh:** And is it more focused towards only metros or certain regions, any color of that sort would be helpful?
- Niraj Kedia:** So it is not only towards metro. The kind of activity that we do in marketing. So for example, even when we have screen -- our presence on screen, we kind of stay away from very expensive IP sort of things. We are there certainly. But our presence, you would find more in content, which is seen by our relatable customer set. For instance, we were in -- and influences. For example, some of the shows that we kind of participated last year like Big Boss and this year on Khatron ke Khiladi. So these are shows, which have large viewerships of our relevant segment. And you'll see our spend more in the BTL sort of spends.
- Ajit Venkataraman:** And if you actually saw during the current world cup as well, how logo will be present in the TV screens, which is an amount of viewership and the comments, which you have got on that has been quite significant.

- Abhishek Ghosh:** Okay. And Ajit, would you have any sense around either in terms of the overall -- while you have seen about a 6% kind of volume growth, what would be the industry volume growth for 2Q from the resin numbers? Any sense would you have around that?
- Ajit Venkataraman:** See, I will not be able to comment on the competition. But in general, the industry has been growing anywhere between 10%, 15% average.
- Abhishek Ghosh:** And you guys?
- Ajit Venkataraman:** As I mentioned, we have been impacted a little bit more severely because of our volume mix. And that's the reason why our movement towards the non-agri segment.
- Abhishek Ghosh:** But for the year, you expect also to grow at 15%, so you'll at least maintain your market.
- Ajit Venkataraman:** Yes, that is our expectation.
- Abhishek Ghosh:** Okay, okay. And the capacity constraint element will only come in, in FY '26 is what you believe.
- Ajit Venkataraman:** In the next 2 to 3 years, we are anticipating that, and therefore, we are doing what is needed at this point of time.
- Abhishek Ghosh:** Okay. And also in order to tap into newer regions like -- not newer, but various probably market shares are not higher. Are you also looking to get into something kind of an outsourcing model or a warehouse capacity? And any changes that you're bringing to your distribution? Because you're -- if I broadly look at your retail touch points, they have been stagnating it at about 21,000 for some time now. So any thoughts around that?
- Ajit Venkataraman:** So although the retail -- see, for example, our dealers and distributors are around 800, whereas our retail network is growing. So a couple of years back, we were at around 20,000. We are up almost 23,000 now. And one of the things, which we are doing is that there is also a churn in the sense that the nonperforming dealers are getting out, and we are introducing more and more performing dealers. So although the number seems to be stagnant, the quality of the network also has improved significantly. That is one thing, which we are doing. And what was the other question?
- Abhishek Ghosh:** No, sir, I was trying to understand that in terms of getting into new regions or maybe there are regions where our market shares are lower, are you trying to put up a warehouse or some people also...?
- Ajit Venkataraman:** Other aspect of it, where we are working really hard on innovating, this is the logistics, etcetera. So we have several groups of concepts running at various parts of the country, trying to get closer to the market. And once they are successful, we'll be rolling it out to the rest of the country.
- Moderator:** The next question is from the line of Dhruv Muchhal from HDFC AMC. Please go ahead.

- Dhruv Muchhal:** Sir, any update on the import -- the PVC import quality order, which the government has probably brought in -- I'm not sure if it was implemented. So any updates if you have you can share?
- Niraj Kedia:** So that quota system was implemented. But till now, we don't know how it is being monitored. I don't think being. But what it has done is some of those imports have reduced, which was coming off inferior quality PVC, that has reduced. But from a quota perspective how it is being managed, we don't know. I don't think it is being managed as of now.
- Dhruv Muchhal:** So the order is not effective as of it? It's just the -- few of the order that is...
- Niraj Kedia:** The government did come out with the quota and all of that. But how they are monitoring it, I am not sure.
- Moderator:** The next question is from the line of Vaibhav Muley from Jefferies India. Mr. Muley, unfortunately, we are not able to hear you. The next question is from the line of Praveen Sahay from PL India.
- Praveen Sahay:** I have one query related to the margin front. So if I look at your gross margin has improved, whereas EBITDA margin has been contracted even in the time of -- when the PVC/EDC spread is on the higher and that's benefited as well as, as you mentioned, that's the plumbing is up 40% for a quarter. That's maybe also benefited. So -- and also, you had given indicative the way forward EBIT per kg for pipe to be range of around INR14, which was not in the past quarters, we had not seen such.
- So first, what exactly the EBITDA margin contraction region. Definitely, you had a set advertisement, but is it only advertisement or something else to look at? And the way forward, how you are going to look this? Because advertisement is not in a quarter, I believe, it's going to be continued. So that is my question.
- Niraj Kedia:** So you were right. There is a gross margin improvement in the pipe segment also that is because of the mix change. But on a net basis, when you see the volume that we did in Q1 was close to 90,000 tons, whereas in this quarter, we have done 60,000 tons. So your other fixed cost kind of gets amortized over a smaller quantity. So you get that negative impact in a per ton profitability. I hope I was able to answer you.
- Praveen Sahay:** Yes, yes. Right, right. So the way forward we will...
- Niraj Kedia:** Yes. So way forward, INR14 is something that we are aspiring for in a few years' time, not in this year. See, as our non-agri to agri moves more towards the 50-50 mark, we aspire that our margin in the pipes segment should also move up to INR14 and plus. For the current year, what we are saying is it should remain in INR10 to INR12 per kg.
- Praveen Sahay:** Okay. Got it. Second, sir, is related to the realization of the PVC ratio. If I look at the external realization, which is around 29% higher than the overall blended realization, so have you sold the PVC resin at the higher price in the external market?

- Niraj Kedia:** No see -- If you see our external sale of resin has been very, very minimal. And you see a higher realization there, because we sell -- we also make emulsion-grade PVC. The realization of the emulsion grade is better than the suspension-grade PVC that we sell. So you see a better overall relation in the PVC segment.
- Praveen Sahay:** And how is the difference just to clarify, sir, emulsion versus that?
- Niraj Kedia:** So the difference is more than INR30.
- Moderator:** The next question is from the line of Mr. Achal Lohade from JM Financial.
- Achal Lohade:** What I wanted to check for the PVC resins, is it possible for you to kind of give some statistics about the industry in terms of how much was domestic PVC resin production in India, how much was import? And of the total availability, how much goes into pipes? And how much goes for other usages?
- Ajit Venkataraman:** In overall market, I think 73% of all the PVC, which is consumed in India goes into the Pipes and Fittings segment. Of the overall PVC resin, which is consumed, almost 50% is imported, only about 50% is made locally. And...
- Achal Lohade:** Sorry, I can't hear you, sir. .
- Ajit Venkataraman:** Can you hear me now?
- Achal Lohade:** A little better towards the end. Yes. Now I can hear.
- Ajit Venkataraman:** Yes. So I don't have the exact numbers for you right now. But about 50% of India's PVC needs are imported still.
- Achal Lohade:** Right, right. No, because we have been hearing this 50-50 for a while. So I wanted to check if there is a change.
- Ajit Venkataraman:** No new capacity has come up.
- Achal Lohade:** But at the same time, the consumption would have grown. So I presume the imports would have gone up beyond 50%. And I wanted to see the change because when you say 10% to 15% growth for the industry, is this also being supported by the resin imports number?
- Ajit Venkataraman:** So that also depends upon what the capacity utilization of current PVC producers as well. So although Finolex has been producing at its capacity, I'm not sure that other manufacturers have been producing at their capacity. So the upside is definitely. But as you would have heard in media that there are few more manufacturers, who are looking into establishing large manufacturing facilities for PVC in India going forward, which might come up in the next 4 to 5 years.
- Moderator:** The next question is from the line of Nikhil Agrawal from VT Capital.

- Nikhil Agrawal:** Just wanted a clarification. You said that the channel was anticipating price cuts in the PVC segment, so they were not -- there was not enough buying. So was this only restricted to the agri segment? Or was it in the plumbing segment as well?
- Ajit Venkataraman:** See overall market, this is a tendency that when they expect -- because to make it very clear, the pricing is very efficient in the Pipes and Fittings segment. The movement, there is a rise in PVC prices or drop in PVC prices, it gets translated into the pricing in the market within 1 or 2 days maximum. So anybody holding a higher value inventory and the PVC price falls, they will be under loss. So typically, in the dropping PVC price scenario, the work pulls back on holding any inventory. The moment they see prices going up, they start pulling inventory, and in the dropping market, yes, they will expect price protection as well for -- otherwise, the inventory -- they don't hold inventory at all.
- So that is the dynamics of the market. And therefore, if you look at the Pipes and Fittings segment, which is the non-agri segment, they are much less elastic. For example, building and construction, pipes and fitting contribute only 1.5% to 2% of the project price. And whereas in agri segment, if the farmer who is buying it with his own money, they are high price sensitive, and therefore any movement in price of resin, you have that segment pulling back immediately.
- Nikhil Agrawal:** Okay. So the impact was mostly restricted to the agri pipe segment, the anticipation of price falling, right?
- Ajit Venkataraman:** That's right. I won't say only agri segment, but predominantly.
- Nikhil Agrawal:** Majorly, okay. Just another clarification. You said the differential between suspension PVC is about INR30 more than the emulsion-grade PVC?
- Niraj Kedia:** It ranges. Currently, it is less than INR30. It is INR25.
- Nikhil Agrawal:** Okay. And it is mostly suspension-grade PVC, which is used to make pipes, right?
- Niraj Kedia:** Yes, yes. Emulsion grade has different usage. It is mostly for medical equipment and synthetic leather.
- Nikhil Agrawal:** Okay. And what would be the raw material for this emulsion grade or the same as suspension?
- Niraj Kedia:** Same.
- Moderator:** The next question is from the line of Abhishek Ghosh from DSP.
- Abhishek Ghosh:** Just in terms of we have seen a very sharp price correction as we speak in the month of October and with some amount of price improvement now, marginal one. So now the trade will have a lot more confidence given the behavioral aspect that one sees towards the price movements in terms of volume uptick. Any thoughts?
- Ajit Venkataraman:** Yes, we anticipate given the annual rainfall scenario, which has been suboptimal in many parts of the country. And given the stability of PVC prices, we expect that the uptick, there will be an uptick in demand going forward.

- Abhishek Ghosh:** Okay. And any -- given the crude price movement, do you have any thoughts on PVC prices trend over the next 6 to 9 months? Any thoughts?
- Ajit Venkataraman:** See, there is not too much of a correlation between the 2. The PVC prices are influenced by caustic production, crude oil prices, etcetera. So it is very difficult to predict based on crude oil prices.
- Abhishek Ghosh:** Okay. But you think after the sharp price drop in PVC, it should at least stabilize and that should give channel...
- Ajit Venkataraman:** We expect the bottom has been reached.
- Moderator:** The next question is from the line of Aasim from DAM Capital.
- Aasim:** Just one question. So you mentioned that Q2 volume underperformance on pipes is majorly to do with your agri mix being higher, but is your geographic mix more skewed towards South and West also a factor that may have weighed down on volume?
- Ajit Venkataraman:** Not really. Because our strongholds are West and South, where we have a decent demand of agri coming from those regions.
- Aasim:** Okay. Because I mean, amongst the interactions that we had with the channel players, I think what we heard was because -- I mean, there was a better range earlier. So accordingly, agri pipes sales were weaker. And then I think September month had the PVC price overhang, so anyway pipes sales were weak. So I just wanted to check. Basically the understanding that I wanted to get out of here was if you were a more balanced player across India and not a West and South player, would you have done better in Q2?
- Ajit Venkataraman:** No. If you actually see the pipe demand -- pipes and fittings demand is based on the GDP from each of these regions. And West and South are the strongest. So I don't think it's not because of the geographic spend.
- Aasim:** Okay. And just lastly -- so earlier in Q2, PVC prices were actually I think moving upwards. So did you see any sense of channel restocking on the agri side during that time?
- Niraj Kedia:** See at that time, if you see that the increase was in small tranches, INR1, INR1.5. So -- and that we were approaching the end of season. So we did not see much channel stocking at that time.
- Aasim:** But then, I mean, just to come back to the September period, I mean, if there's any way of weak season for agri, right? So if there was a PVC price overhang, why would agri as a segment do relatively weaker than to drag down the overall volume?
- Niraj Kedia:** If you really ask me, July and August were in fact very good months. So the whole, I would say, better some growth or the growth of both agri and non-agri kind of continued every month, month-on-month from April onwards. April, May, June, July, August. In September, there are a couple of things which have happened, which impacted agri more. One was monsoon kind of reached everywhere and there were rains. Secondly, while price correction did not happen, there



was a strong indication of prices going down. The prices in the country were higher than the import offers, which were being offered.

So there was a long period of, I would say, an overhang where there is an anticipation of price reduction, but it did not happen. So that actually played a bigger role. If this price correction would have probably happened in the first month -- first week of September itself, then we might not have seen so much of this. That's my view. But the fact that this overhang of our base going to be price correction, price reduction for a month, that had a very negative impact.

- Moderator:** The next question is from the line of Sriram Rajan, who is an individual investor.
- Sriram Rajan:** Just two questions, actually. In terms of agri and non-agri, where are the margins more for the company?
- Niraj Kedia:** Agri is a high-volume, low-margin business. And non-agri is a high margin business. The profitability in non-agri is more than agri.
- Sriram Rajan:** And is there any intention to change the ratio of 40-60 to a higher mix from a sales...
- Niraj Kedia:** Not very long ago, we used to have a ratio of 80-20 from 2017, '18 onwards. And that is when since then we have been focusing and trying to improve this ratio. And that's why we see comfortably that we are in the 65-35 mark. Our endeavor is that in a few years' time, we should reach at least 50-50 in both the segments.
- Sriram Rajan:** Okay. That's really helpful. And in terms of -- given that the building and the real estate market has significant tailwinds, at least for the next 4-5 years. Is that an important segment for us actually selling directly to the builders?
- Niraj Kedia:** Yes, yes, absolutely.
- Sriram Rajan:** Okay. Would you mind sharing what fraction of your non-agri business would that be? Or it's a little too small now?
- Niraj Kedia:** So just -- I'm clear we do not sell anything directly to any builder or anybody. Whatever sales we do, it's our channel partners only.
- Sriram Rajan:** Okay. And see, the plumbers, etcetera, taking it and off-the-shelf is one, but have builder buying something in block for the entire construction of 1,000 flats. Is that a segment you're actually intentionally focusing on or it's something that the channel partners has to focus on?
- Niraj Kedia:** No. We do that. So what happens is while we do not sell it directly, we don't bill it to the builder directly. But it is our team. We have a dedicated team, which works continuously only on these projects. We call them project business. And their time, they work independently at times, they take support from the local dealer, distribution in their area, and they kind of jointly make the value proportion to the builder, but that happens.
- Moderator:** Thank you so much. As there are no further questions, I would like to hand the conference over to the management for closing comments. Over to you, sir.



**Niraj Kedia:** Thank you. Thank you all for attending today's call. Obviously, if you have any further questions, please feel free to reach out to us and season greetings. Happy Vijaydashami to everybody. Thank you.

**Moderator:** Thank you so much. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.