



“Finolex Industries Limited
Q2 FY ‘23 Earnings Conference Call”
October 25, 2022



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MODERATOR: MR. ARUN BAID – ICICI SECURITIES



*Finolex Industries Limited
October 25, 2022*

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '23 Earnings Conference Call of Finolex Industries hosted by ICICI Securities. As a reminder, all participant line 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 from ICICI Securities. 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 '23 post results con call. We have the senior management of Finolex with us today. I would request Mr. Anil Whabi to give an opening remarks, post which we can open the floor for question and answers. Over to you, Anil, sir.

Anil Whabi: Thank you, Arun. Good morning, ladies and gentlemen. On behalf of entire Finolex family, I extend warm greetings and best wishes to you and your family for this festive season of Diwali. Welcome to the investor conference call for Q2 FY '23 earnings release. We thank you for your continued interest in Finolex Industries. The results of the company for quarter ended 30th September '22 were approved by the Board of Directors on first 21st October. This second quarter is generally a drag on volumes due to monsoon. However, the company has delivered higher volumes over last year, which reflects spur in demand.

The financial results for the quarter had a severely adverse impact due to sharp correction in PVC prices, against higher price inventory of raw material and finished crudes. The silver lining is that, correction in commodity rates could further improve demand from consumers across segments. The company is well positioned to sail through this trough of the cycle, as it has strong debt-free balance sheet with positive cash flows.

Let me give you some of the performance indicators for the second quarter of the financial year. Total income from operations decreased by 13% to INR 941 crores against INR 1,083 crores in Q2 FY '22. Loss at EBITDA level was at INR 143 crores for Q2 FY '23 against a profit of INR 300 crores in the previous corresponding quarter of Q2 FY '22. The company reported loss after tax of INR 94 crores in Q2 FY '23 as compared to the profit after tax of INR 235 crores in Q2 FY '22.

Now getting into segmental performance, in Pipes and Fittings, the revenue fell by 11% to INR 802 crores in Q2 FY '23 from INR 899 crores in Q2 FY '22. Volumes was up by about 7% Y-o-Y to 59,218 metric tons compared to 55,453 metric tons in the corresponding last quarter. The EBIT in Pipes and Fitting segment was INR 57 crores in the last year in Q2 compared to the loss of INR 48 crores during this quarter of Q2 FY '23.

Moving to PVC Resin segment. Revenue in the Resin segment decreased 26% from INR 654 crores in Q2 FY '22 to INR 481 crores in Q2 FY '23. Volume in Resin segment grew by 4% to 54,633 metric tons in Q2 FY '23 against 52,029 metric ton in Q2 FY '22. Loss at EBIT level in

the Resin segment was INR 111 crores in Q2 FY '23 compared to the profit of INR 231 crores in the corresponding previous year's quarter.

The company continues to have a strong balance sheet with a net cash surplus of roughly about INR 1,300 crores as on 30 Sept 22. Let me now leave the floor open for questions. And I have my colleague, Niraj also to take the questions. Thank you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on your touchtone telephone. If you wish to remove yourself from the question queue. You may press start and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles.

First question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal: Hi sir, good morning and wish you all also a very happy Diwali. Sir, a few questions from my side. Firstly, on the EBITDA loss. Is that entirely driven by inventory loss or is there any other element to it, like Forex or anything else? If you adjust for these, what is EBITDA adjusted number we should look at? In either way, you can give it on EBITDA per tonne basis for Resins or Pipe segment or the overall absolute EBITDA number? That's my first question.

Niraj Kedia: So Rahul, you are right. See, in terms of Forex, there was no major thing per se and because we didn't have much of borrowings because September quarter is when we kind of repay all our short-term loans. So Forex did not have a material adverse effect, but most of the numbers that you see on the negative is because of inventory loss.

Rahul Agarwal: So if we adjust for that, what is the normalized EBITDA number? Like from a business perspective, what is the profitability of the business in the quarter?

Niraj Kedia: See, if you remove this, I'm just trying to say how do I put this? See if...

Anil Whabi: Rahul, net loss impact was there in Q1 also. If you see Q1 and Q2, the PVC prices have fallen by 30%. So first quarter, we did show some profit, but it was compressed and in the second quarter it is a loss. And our normal EBIT levels are about INR 8 to INR 10 a kg in pipes and about INR 15 a kg in PVC segment.

Rahul Agarwal: Okay. So I can back calculate using those numbers. Is that correct?

Anil Whabi: Again, that is difficult. I mean, quarter-on-quarter, you won't see these numbers because of the volatility. But these are general numbers. Yes.

Rahul Agarwal: Yes. I mean I understand because of volatility, it's tough to get to that number, but that is what I really wanted to understand and if I assume to INR 10 per kg and the INR 50 per kg for resins, will that give me enough decent idea for the quarter on a business level? Is that okay?



*Finolex Industries Limited
October 25, 2022*

- Anil Whabi:** Yes see quarter-on-quarter, you will see these variations. Even Q3 will have some spillover impact of inventory losses.
- Rahul Agarwal:** That's the next question actually I had that because we are seeing PVC pricing further falling even in October, is this last thing done with or could be also a similar situation because it's still higher than the pre-COVID level. So let's say, it goes down to \$70. Are we seeing more markdowns next quarter as well?
- Anil Whabi:** Major part of it is done with in Q2, some effect will be there in Q3. You're right, INR 3, which has fallen and there is an expectation of further correction probably in the next two weeks.
- Rahul Agarwal:** And PVC, ethylene, EDC and VCM will give the pricing for 2Q average and what are they currently at?
- Niraj Kedia:** So in the end of September, on 30th September. The PVC/EDC delta was roughly \$575. And PVC VCM delta was \$165. During the quarter, the PVC/EDC delta was \$600 and the PVC VCM delta was \$235.
- Rahul Agarwal:** Got anything on ethylene, please?
- Niraj Kedia:** Ethylene delta, generally, we don't compute because it's a very small component. I mean do you want pricing? What is it?
- Rahul Agarwal:** That's the price, yes.
- Niraj Kedia:** So ethylene for the quarter was \$975. It ended September at \$900.
- Anil Whabi:** And Rahul if we look at it today, this PVC EDC delta has come down to \$510 because of drop in PVC prices.
- Moderator:** The next question is from the line of Sonali from Jefferies.
- Sonali Salgaonkar:** So my first question is, could we get the PVC, EDC and PVC/VCM delta for Q2 FY '22, that's the same quarter last year, please?
- Niraj Kedia:** FY '22, is it? So PVC/EDC delta last year same quarter was \$790 and PVC/VCM delta was \$391.
- Sonali Salgaonkar:** Sir, from the current trend of PVC, what -- sorry, what was the PVC price as of 28th September? And what is it right now? I'm also kind of correction that you said you expect in the coming few weeks?
- Niraj Kedia:** End of September, it was \$900, PVC. Last week, it was -- it has come down to \$830. And regarding the drop as we just discussed now, securities have fallen just now, okay? And

mortgage sentiments are slightly weaker on the PVC plant. Again, a lot of other factors which are impacting it is dumping from China and all of that. So in the next 2 weeks, there is a feeling in the market that we will go down further by how much and when that remains to be seen.

Sonali Salgaonkar: Sir, but structurally, where do you think PVC can stabilize from here on? I mean we have seen such a sharp drop while steadying PVC. What do you think or rather your take on the near term of PVC, given its global factors?

Niraj Kedia: Before 2020, March, I would say. Historically, PVC was trending between \$980, \$950 and that has been the average for many years. On this sharp decline that we see, we must also appreciate the fact that in the last two years, previously also almost doubled. So there was a sharp increase also for which the benefits also we kind of reap.

And this was -- and we've always been saying that \$1,500, \$1600 of PVC that is not sustainable. It was a matter of time when the prices came back to the normalized levels. So, in my personal opinion, these are pretty much there. They have almost bottomed out. Some more negative sentiment that we see around is mostly driven by demand and dumping of stock in the country.

So if global factors slightly improve, China opens up, we should see some stability. But until that happens, I don't think there is a very material downside left when it comes to dropping PVC because right now at INR 83, INR 81, we are almost at the normal levels.

Sonali Salgaonkar: Understood. Sir, my second question is regarding CPVC volumes and revenue, if you could help for the quarter and same quarter last year, please?

Niraj Kedia: Yes. So CPVC during the quarter, Pipe and Fittings, we did 4,000 tonnes. And this was 3,600 tonnes last year.

Sonali Salgaonkar: And the revenue?

Niraj Kedia: In terms of revenue, it was INR 170 crores versus INR 125 crores last year.

Sonali Salgaonkar: Sir, also, what is our agri to plumbing mix right now for the quarter? And do we still expect plumbing to come up to about 50% over the next 3, 4 years?

Niraj Kedia: Yes. So our year-to-date in terms of tonnage, agri, non-agri is 31.59%, during the quarter, non-agri was 37%.

Sonali Salgaonkar: Got it. Sir, last question. How do you see the demand trends on the ground both for agri and plumbing right now? And what is the current inventory level in the channel? That it from my side.

Niraj Kedia: See, demand per se. the good thing about all this falling present all is that we always keep on talking about muted demand, people deferring their decision and all. It is difficult to put a

number to it, but that is a general sense that we get. But with PVC coming back to normal levels, we feel that demand should pull up, and we are pretty optimistic and positive about this.

If you look at this quarter also, this is the highest tonnage that you achieved in Q2 ever and while the prices have come down, profitability has taken a hit, the volumes have grown even in this quarter compared to last year. So, this is actually a good thing and the price action would have to happen one day. In another term, you can say that it's good that the same happened very quickly. So, whatever was to be there, it has happened and now it should be the positive for the industry. And in terms of channel methane invent generally is lower and it continues to be low.

Moderator: The next question is from the line of Chintan Sheth from Sameeksha Capital.

Chintan Sheth: So, Whabiji, if I have to understand, inventory write-off is one aspect is because we have – we are still carrying high-cost inventory, which we have reversed based on the current prices.

The other aspect about it is the conversion which we did of the high inventory and sold it in the market, that is not a notional loss or the inventory write-down. It's actual loss which we have incurred during the quarter, right? Inventory which we have built in the previous quarter, and we have used the material this quarter to manufacture and sell it in the market. So some portion of this is real loss other than the inventory led loss. Would that be the right understanding?

And second is on the pipe front, when we see the write-downs like this on the PVC front, it eventually helps our PVC businesses because that's the end product. But this quarter, we have seen the losses in that segment to be far previous. So, what should we understand from that? If you can explain.

Niraj Kedia: Yes. So see, inventory loans, as you rightly said, it is both. Now there's no defined definition of inventory loss. So, when if I have a stock, which I had bought at a higher cost on our raw material cost was higher. And of course, this is a commodity business, I have to pass on whatever changes in the prices of finished goods.

Chintan Sheth: Correct.

Niraj Kedia: So now it is on how do you view it? Somebody would view it as inventory loss only. Somebody would view it differently because it is not a normal trading or shrinking on margin.

Chintan Sheth: Correct.

Niraj Kedia: This is the passing of raw material price changes or financial price changes to the end customer. So this quarter had as you rightly said both, we were carrying inventory which was high cost. When we sold it, and that time also, we had to sell it below the cost. At the same time, at the quarter end to make the inventory levels reflect as per accounting standards, the right numbers that write down also taken. So both these things together. Hello? Am I audible?

- Moderator:** It seems like we lost the connection for the current participant. We move to the next question from the line of Praveen Sahay from Edelweiss Wealth Management. Please go ahead.
- Praveen Sahay:** So the first one is, can you give the number for the fitting revenue?
- Niraj Kedia:** So during the quarter, we sold 7,000 tonnes of fittings. And INR 200 crores in terms of numbers.
- Praveen Sahay:** Second question is related to the CPVC realization, so if I look at the calculated task that we have a number given. On the sequential on the Y-o-Y from the higher side, whereas the PVC we had a single amount good decrease in the realization. So what we had seen in the past, your narrowing of the prices of a PVC and the CPVC I think that's the widening it still goes on? And like why it is not falling?
- Niraj Kedia:** Yes. So I'll tell you. This is something very strange. CPVC prices, see in PVC price passing on a price movement is almost real time. But CPVC for some reason does not follow the same time and this is how the industry has been working. I don't have an answer to that why CPVC does not follow PVC pricing so closely.
- Probably one guess would be that in overall terms, the volume of CPVC still is very less in the overall market, domestic as well as global. So that may be one of the reasons, but it is hard to assign one particular reason why CPVC prices don't follow the PVC prices on a much regular basis.
- Anil Whabi:** No. The other reason is that there are very few suppliers of CPVC, so that is why they are able to sustain the higher prices.
- Praveen Sahay:** And second question sir related to the PVC. So as you had already mentioned that the PVC prices have fallen and there is a lot of the China dumping happening. So is there any need for central government or any extra duties or something?
- Niraj Kedia:** See, I think the representations have gone to the government, but nothing has come up as of now.
- Anil Whabi:** No. The action has started. It will take some time, but there will be some action, yes.
- Praveen Sahay:** But still we are seeing the falling of the PVC resin prices continues because of a...
- Anil Whabi:** No. In fact, after the investigations have started, the dumping has slowed down.
- Praveen Sahay:** And in the INR term, what's the current trading rate of the PVC ratio?
- Anil Whabi:** Market price is around 79, 80.
- Praveen Sahay:** Thank you and happy Diwali to everyone.



Finolex Industries Limited
October 25, 2022

- Moderator:** The next question is from the line of Arafat from Reliance Securities. Please go ahead.
- Arafat Saiyed:** As you discuss that PVC prices are not close to the bottom. But I just want to understand if the risk that it can go further down?
- Niraj Kedia:** That could be anybody's guess, Arafat.
- Arafat Saiyed:** So on your next question on your margin. So what is the PVC margin you can expect for the next couple of quarters on these prices?
- Niraj Kedia:** So next couple of quarters, it will depend on how volatile PVC prices are. But on a steady-state basis, if you see our past also, roughly INR 8 to INR 12 a kg is what we expect on the Pipe segment. Around INR 15 in PVC.
- Arafat Saiyed:** And my last question sir, I just want to understand how is the demand outlook, especially from the government for especially agri demand, which can drive the growth for next couple of quarters. So any thought on that?
- Niraj Kedia:** As I also said earlier, demand should improve. That is our sense. We are looking at positive vibes from our channel partners. So hopefully, with these prices, demand pool should be there.
- Moderator:** The next question is from the line of Sandesh Barmecha from Haitong. Please go ahead.
- Sandesh Barmecha:** Good morning and a very happy Diwali. I have few questions, start with, sir, by when do we expect proceeds from the sale of remaining land bank to come in? And any plans of utilizing the excess cash in the book in the form of special dividend or buyback?
- Niraj Kedia:** So almost half of the land we dispose of in the last financial year itself and the entire proceeds entire cash was received before the end of the financial year. On the remaining bit, there is nothing which has happened as of now. You might be also reading to a report or a news article which was putting around last week or a couple of weeks ago. That actually was a mistimed article on the transaction, which referred to the same transaction which we concluded in the March 2022.
- Sandesh Barmecha:** So on the part of the excess cash in the book, sir, anything from a special dividend or buyback?
- Niraj Kedia:** Yes. When the appropriate time comes, if we are not able to deploy in the business, this will be returned to the shareholders, either as a special dividend or buy back.
- Sandesh Barmecha:** Sir, just want to understand something, sir. So what would be the difference between PVC agri pipe and HDP pipe at the moment, sir?
- Niraj Kedia:** You mean to say difference in terms of?



*Finolex Industries Limited
October 25, 2022*

- Sandesh Barmecha:** Pricing and usage, what is the difference between the two?
- Niraj Kedia:** Mr. Whabi would like to answer that?
- Anil Whabi:** See, if you talk today, the HDP prices are lower. So if we look at the raw material prices, HDP prices, after correction of PVC prices, they would be at similar levels. The densities differ. Generally in India, the usage of HDP is very limited because it requires special technology to connect the fusion technology, which is not generally available with the plumbers.
- So in common use PVC pipes are used, but where for smaller diameters in some cases like gas distribution and other cases or some other users, this HDP types are used, but the use is very limited.
- Sandesh Barmecha:** So just two questions, sir. So how many SKUs Finolex has at the end of September '22?
- Niraj Kedia:** 2,000 plus. I don't have the exact count as of now. But it's 2,000 - 2,100.
- Sandesh Barmecha:** What will be our total CapEx outlook for FY '23 and '24?
- Niraj Kedia:** FY '23, we should be targeting for roughly INR 200 - 250 crores.
- Sandesh Barmecha:** And '24, sir, anything planned, sir?
- Niraj Kedia:** Generally, our replacement CapEx is roughly at, INR 150-200 crores, and that should continue.
- Sandesh Barmecha:** Thank you sir. Good day and happy Diwali.
- Moderator:** The next question is from the line of Abhishek from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh** Sir, in terms of -- you mentioned that prior to the crisis in March 2020, PVC prices used to be in the range of 70 to 80. But if you see on overall, there's an inflation in terms of crude being much higher now and also the EDC costs have increased. So how should one look at in terms of cash cost, profitability as far as production of PVC are concerned globally?
- Anil Whabi:** So you're right, the inflation is there. So conversion costs to a certain extent, would have gone up. But PVC prices are not nearly connected to the crude prices and it would depend again, if the PVC prices are down with a lag of time, EDC prices also tend to come down. Today, EDC prices are also low because caustic soda industry is doing pretty well, caustic soda prices are fairly high and PVC demand being low, that is why EDC prices have also come down.
- So there are multiple factors, but going forward, we believe that if the prices of PVC fall and fall below breakeven point. The supplies will be cut off, many producers will curtail production. So again, the prices would tend to correct and this spread normally which we talk about of 550

could come back. If we talk of today, it has come below that normal level, it is now today at \$510. But let's see what lies ahead.

Abhishek Ghosh: And sir, what's the outlook on incremental PVC stake in India, you are not commenting drilling capacities because of no certainty of EDC. So what's the outlook over the next couple of years in terms of higher EDC capacities coming through or PVC capacities? Any color on that?

Anil Whabi: See in the domestic market, we understand that some capacities will come up in the next few years. But globally, if you see, there are just enough EDC supplies for the existing PVC capacities. So there will be some addition to PVC capacities globally very low addition, India being a major consumer, yes, the capacity will be added here, but at the same time, for these capacity additions, we understand the EDC capacities are also coming up in Gulf region.

Abhishek Ghosh Sir, just 1 more thing as you've seen you'll have reported losses given the sharp decline in PVC prices. So how should one read the competitive intensity as far as the unbranded or unorganized players are concerned, in terms of their ability to absorb losses, but at the same time, a few quarters back, we also had issues of -- they're not able to source enough supply. So in light of these two aspects, how should one look at the competitive intensity from the unbranded and unorganized place?

Anil Whabi: The unorganized or unbranded have never been the competition. They do have certain volumes of the market, but they have not been the competition. And unorganized sector has been suffering not only in this previous quarter, but since last two years also when the PVC prices went up, there were supply disruptions. So it was difficult for them to operate. But at the same time, it is very easy for such units to just close down during this such difficult time and again, start operating when the times are normal.

Abhishek Ghosh: And sir, just one last question in terms of your regional presence. Have you reject any distribution everything to improve your additional presence? Anything on that thought in terms of more of presence in eastern or the southern. Anything on that regional presence aspect?

Niraj Kedia: See south and west are our top markets, and we continue to be our core strengths. But our presence is pan-India. We have supplies to west to as far as Himachal in the East and even Kashmir. So that way presence wise, there is not any large area that we are not covering per se. But south and west are our strong terms or strong areas.

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

Ritesh Shah: A couple of questions. First, Whabi sir, you indicated like safeguard duties, something has actually happened. Can you elaborate at what stage of the process the government is at? And what sort of industry representation has gone in specifically for the safeguard duties?



*Finolex Industries Limited
October 25, 2022*

- Anil Whabi:** Ritesh, actually, nothing has happened so far. I just said that the discussions have started, and there is some investigations going on. Well, it will take a little time. These things take a little time.
- Ritesh Shah:** Sure. But sir, any indication on what sort of duties can be expected?
- Anil Whabi:** No, I don't think we can expect what corrective actions will be taken, but I'm sure this issue will be addressed.
- Ritesh Shah:** Okay. That helps.
- Anil Whabi:** See what the industry taken up is VCM present more than 2 PPM which is normally lower in ethylene-based supplies. So that has been taken up, and let's see what happens.
- Ritesh Shah:** Sure. Sir, my second question is, I think in 1 of your earlier questions, you indicated agri, non-agri mix at 31% and 37% for Q1 and first half. I presume this is on volumetric terms, did I hear it right?
- Niraj Kedia:** Yes. Volume.
- Ritesh Shah:** And what would be the safe numbers for last year?
- Niraj Kedia:** So last year, Q2, our non-agri was 42% and it is 37% this quarter. But this year, in Q1, it was 27% against 24% last year.
- Ritesh Shah:** Sure. And sir, on CPVC, you indicated 3,600 tonnes and 4,000 tonnes, right?
- Niraj Kedia:** Yes.
- Ritesh Shah:** Last year to this year. So sir, my question is, basically, if I just do a simple math of per tonne realization on PVC pipes and fittings divided by PVC resin prices, we see a significant delta of like 1.52-x. Now this is the highest number, which I see since FY '15. So, the mix change is not huge, basically, if you look at CPVC or agri or non-agri, then how should we understand this ratio bump of PVC pipes and fittings by PVC resin? Is it a function of discounts? Or how should one look at it?
- Niraj Kedia:** So you are looking at -- but what number are you taking for the resin? I mean, it's a one day number, quarterly average number, what is that you're looking at?
- Ritesh Shah:** It's a Q2 FY '23 number. So I'm looking at per kg price for PVC pipes and fittings divided by PVC resin price. This is the reported numbers on realization. So I'm just looking at it on a per kg basis and dividing it. So it comes to 1.52-x.



*Finolex Industries Limited
October 25, 2022*

- Niraj Kedia:** Okay. I got it now. In terms of absolute numbers, do you see that difference because see PVC price is coming down that percentage may have gone up. Just look at your math probably, Ritesh.
- Anil Whabi:** Ritesh, that may not signify anything much because when you are talking about quarterly numbers of PVC transfer, obviously, the impact of PVC drop is higher in that number. While in Pipes and Fittings, it is a matter of mix also and other factors as well.
- Ritesh Shah:** Okay. Sir, it seems a bit counter intuitive because -- or it can be like for Pipes and Fittings, has the prices not gone down in an equal proportion to what we have seen in PVC resin prices? Or basically, the discounts on Pipes and Fittings would have been lower?
- Anil Whabi:** See, I said there are other factors also. So it is difficult to put a number on each factor.
- Ritesh Shah:** That's right. Sir, which would be the other factors besides the mix-agri, non-agri, CPVC?
- Anil Whabi:** See discounts, periodic discounts, so they do not necessarily match the PVC supplies coming in.
- Ritesh Shah:** Okay. Sure, sir. I'll call you separately to understand this better, sir. Sir, my next question is, basically, if you look at the EBIT per kg drop for PVC Pipes and Fittings versus PVC resin, in case of resin, it's a very severe drop, whereas in case of PVC Pipes and Fittings it actually moved up a little bit. Sir, how should we understand that if one is looking at inventory, if one wants to understand the inventory loss? So should we look at the quantum of PVC inventory, which was sitting in resin business and the differential in pricing being the same, and that is the reason which contributed to a sharp dip on EBIT per kg on PVC resin versus Pipes and Fittings?
- Anil Whabi:** See obviously, in Pipes and Fittings, 70% to 80% is the PVC content. So that is the only reason.
- Ritesh Shah:** Okay, fair thing. And sir, last question, is there any scope at all wherein the company we might look to divest either the Pipes and Fittings business or the resin-making operations or look to demerge. Is there any probability of either of these events happening?
- Anil Whabi:** Nothing under discussions right now.
- Ritesh Shah:** Okay, sure. And sir, last question, anything incremental on the CapEx side that we have planned, anything upstream?
- Anil Whabi:** Sorry?
- Ritesh Shah:** Any CapEx plans basically to get the mass balance right on EDC, ethylene and VCM?
- Anil Whabi:** No, nothing. No CapEx planned in PVC segment, except replacement assets.
- Ritesh Shah:** Okay. And sir, do we have a time-frame by when we will actually conclude that cash will actually materialize to pay out or something else because we have been indicating to the

investors that once something on the CapEx fructifies when we will let you know, is there a time-frame that we have in mind for this particular variable because it has a lot of...?

- Anil Whabi:** It's time-frame, but yes, within a reasonable time, it should happen.
- Ritesh Shah:** Okay. So should one presume to be two quarters or something?
- Anil Whabi:** That Ritesh, is difficult to say.
- Ritesh Shah:** Okay. Sure sir. Thank you so much for the answers and wish you a happy Diwali.
- Anil Whabi:** Happy Diwali to you. Thank you.
- Moderator:** Thank you. The next question is from the line of Bobby J. from Falcon. Please go ahead.
- Bobby Jayaraman:** Can you explain the...
- Moderator:** Sir, sorry to interrupt, but if you can take the phone off speaker, please your audio is not clearly audible.
- Bobby Jayaraman:** I'm not on speaker, actually. Yes. Am I better?
- Moderator:** Yes, sir, please proceed.
- Bobby Jayaraman:** Yes. Can you explain the structure of the PVC market in India? How much of it is catered to by imports?
- Niraj Kedia:** By imports you meant?
- Bobby Jayaraman:** Yes.
- Niraj Kedia:** Yes. So roughly 50% is imported. 3 million tonnes to 3.5 million tonnes is the requirement for the country, of which roughly 1.5 million tonnes to 1.7 million tonnes are made in the country and balance is in total.
- Bobby Jayaraman:** Right. I mean given that India is one of the few markets where the construction sector is actually growing, why do you think imports still happen?
- Niraj Kedia:** Because presently, I would say the capacity for production in the country is not as much as needed to meet the demand. That's the only reason.
- Bobby Jayaraman:** Yes, right. My question is, why still, why isn't more capacity coming? Or why aren't you increasing capacity? What's the rationale for imports given India is such a big market?



Finolex Industries Limited
October 25, 2022

- Anil Whabi:** See globally, there are adequate capacities available, and this being a business where the volatility in the prices rules and it's capital intensive. So possibly, that is why nobody has invested in the domestic market.
- Bobby Jayaraman:** Right. What is the advantage China has because ethylene is a petrochemical product and China doesn't have any advantage there. So how are they able to make PVC so cheaply?
- Anil Whabi:** No. They make ethylene-based, but the large part of supply comes from carbide-based supplies, which involves coal burning.
- Bobby Jayaraman:** Also they do it through the carbide route.
- Anil Whabi:** Yes.
- Bobby Jayaraman:** Okay. But India has ample coal to...
- Anil Whabi:** No, in India, there is a very small capacity coming through that route. So generally, world over, this is discouraged because of environmental issues.
- Bobby Jayaraman:** But the thinking was that China would stop this because of environmental issues, right, and there wouldn't be any kind of passing. That doesn't happened?
- Anil Whabi:** In fact, three years back, there was some news that they have stopped, but then with PVC prices again going up beyond \$1,000, the supply started coming in, then we heard that no new capacities are being added up, but we are not sure. Today again, since demand in China is low, this carbide route material is being dumped outside.
- Bobby Jayaraman:** And the market doesn't differentiate between, in terms of prices for the carbide route and the...?
- Anil Whabi:** Carbide route prices are generally \$20 to \$50 lower than the ethylene-based supplies.
- Bobby Jayaraman:** Okay. So that will give you a bit of an advantage, right?
- Anil Whabi:** Yes.
- Bobby Jayaraman:** Right. And does this PVC, the price almost crash that has happened. Does that also apply to ECH?
- Anil Whabi:** Sorry?
- Bobby Jayaraman:** Does the PVC price decrease that has happened, does that also apply by the ECH, ethylene?
- Anil Whabi:** You mean VCM?



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Bobby Jayaraman: No, ECH. Ethylene-chlorohydrin.

Anil Whabi: That I wouldn't know.

Bobby Jayaraman: Okay.

Anil Whabi: You mean EDC, EDC prices have come down, but they always do come down with a lag.

Moderator: Thank you. Next question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Sir, my first question was on what will be the average price for the quarter for us, in PVC prices?

Niraj Kedia: PVC prices you meant?

Chirag Lodaya: PVC prices average for us at what rate we would have consumed?

Niraj Kedia: The PVC prices was \$1,020.

Chirag Lodaya: Sure. It's for the quarter, right?

Niraj Kedia: These are the average PVC prices for the quarter.

Chirag Lodaya: Okay. And secondly within next two weeks time, there's a possibility that PVC prices further that may go down...?

Moderator: Sir, your audio is breaking up, sir. If you can take the phone off speaker, please?

Chirag Lodaya: Yes. Now it's better?

Moderator: Yes.

Chirag Lodaya: So I understand what is the current rate is today?

Niraj Kedia: Sorry we are not able to hear clearly.

Moderator: Mr. Lodaya, may we request you to move to a better reception area, please. Your audio is breaking up a lot. So it seems like we lost the connection for the participant. We will move to the next question from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Sir, I understand that calculating inventory losses are difficult, but this time around, we have taken a mark-to-market on the closing inventory for September. Could you quantify that number, please?

Anil Whabi: See Rahul, mark-to-market is one part of it, which is provided. After marking to the net realizable value also, the inventory value is high, which would impact the current quarter and during the

quarter, whatever sale happened also, there were many instances where the realization was more than the cost, but you see compressed margin because of high cost raw material being used for fallen PVC prices.

Rahul Agarwal: I understand that, sir. What I was referring to was the September, the balance sheet, the closing inventory number, what was the inventory loss on that M2M? Just a markdown.

Anil Whabi: I don't have that number.

Rahul Agarwal: Okay. And your opening commentary, and Mr. Whabi, you said there is some reflection of demand going up purely because the pricing is now like pretty cheap, but obviously, we are not settling down, there were clear that channel filling happened by trade. But second half, do we see growing on sale volume Y-o-Y? Or you think that is still a challenge depending on if these prices settle down, that can happen or otherwise, it's still like a black box?

Anil Whabi: No. What is expected is that prices now will settle down and the fillers that we get from the marketplace is also once that happens, the volumes should pick up.

Rahul Agarwal: So there is a possibility of us growing in second half Y-o-Y on volume? We did like almost 1,20,000 tonnes for both segments last year, I think that's a decent number to have.

Anil Whabi: Yes. So let us see. The time will tell.

Rahul Agarwal: Okay. And 1 last, just a clarification on CapEx. I think first half, you've done about INR 66 crores, we're guiding for INR 200 crores, INR 250 crores, that is largely maintenance and we should see a catch-up happening in second half, is that correct?

Niraj Kedia: Yes.

Moderator: Thank you. The next question is from the line of Shrenik Bachhawat from LIC Asset Management. Please go ahead.

Shrenik Bachhawat: So my first question is agri-volumes have been weaker in the past season, so what is given the pent-up demand? And how can it benefit in the upcoming agri season for us?

Niraj Kedia: So as you said, the view is that now there is no reason for there being any pent-up demand per se, with PVC prices coming down. We hope that demand pull will be there even from that agri side.

Shrenik Bachhawat: So assuming agri demand being robust for the upcoming season. So what is your view on the non-agri for the next two, three years? Like what is that -- where can you see non-agri?

Niraj Kedia: See non-agri has been our major focus area in the last three, four years and that continues to be our key focus area. It does not mean that we don't focus on agri. In agri, we know we are strong

and we continue to be strong and we take efforts to ensure that part of the business is not impacted.

So our sight from it does not go away, but on non-agri whatever steps that we have been taking, we'll continue to do that and as I said even earlier, our initial target is to reach 40% non-agri and eventually, we want to reach a scenario where both these agri and non-agri segments contribute equally to our business.

Shrenik Bachhawat: Sure. And just 1 accounting question, sir. So basically, as a recent participant asked. So I just wanted to understand the inventory valuation. So inventory valuation we will be doing on cost or realizable value whichever is less, right? For example, if the PVC costing is INR 100 and the price has gone to INR 90. So balance sheet will already be reflecting the INR 90 price, right?

Niraj Kedia: Yes, you are right.

Shrenik Bachhawat: So we would have been taking that loss on P&L?

Niraj Kedia: Yes.

Shrenik Bachhawat: So that will be impacting our margins further, right?

Niraj Kedia: It has already impacted our margins this quarter, but as you rightly said. Let's take an example. Say, let's hypothetically we had a material which cost us INR 120, and on balance sheet date or one subsequently the cost realizable value came down to INR 100. So the INR 20 mug-down did happen.

But even this INR 100. So what happened? What happens with this extra accounting channel is you bring your inventory at the net realizable value. But not at the value, which would have given you the markup in the past. So suppose in the -- historically, your cost was INR 90, and you were selling at INR 100, that INR 10 impact cannot be taken into the financials. Unless the material is.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: So when we -- I was just going back to the previous participant, Ritesh asked that the spread between the PVC fitting -- sorry, PVC pipes and the PVC resin this year and this quarter around is at a historical high. So that means that the reduction in PVC input for price is higher than the reduction in realization of PVC pipe. The spread is better, but still we reported a loss in the PVC Pipes segment.

This is driven by, obviously one portion is the setting inventory at a higher cost. But what are the other factors, which would have also impacted that I would like to understand. Because the

raw material cost has lowered down, right. Our cost of PVC resin for the pipes business was lower during the quarter.

There will be some element of the higher cost inventory of the previous quarter, but still the sizable 70% of the raw material portion of the pipes is PVC that has gone down faster than the decline in the pipes realization. I'm trying to understand -- trying to get that sense of why is the loss in the pipes business?

Niraj Kedia: So see it impacts both the businesses. Let me try and see if I can answer that. See for example, in Resin segment, our raw materials are EDC and ethylene. So obviously, we have a stock or we purchase raw materials, which were high cost and then prices corrected. So the losses that was incurred was because we converted something, which is high cost and our cost of production was probably more than the realization. Now, similarly, in Pipes and Fittings, the input is resin.

While resin is transferred at market rates, then there is a gradual and continuous reduction in prices. So you are always doing a catch-up, per se you see given day, you have an inventory, which is at high cost and the prices go down. So that impact comes in pipes. Similarly, while your input prices keep going down in terms of resin. There is always a lead time between what you procure, you manufacture and then you sell. So in this continuous falling trend, this is bound to happen in both the segments.

Chintan Sheth: So are we seeing further reduction in PVC pipes business realizations as we speak?

Niraj Kedia: See they are driven by PVC price changes, right? For example, INR 3 reduced very recently when the impact was passed on. That is how the industry operates. I think it is the right way of operating because I mean, commodity it is best as soon as the price changes have moved. See, if you look at it last two years whatever our margins. The large reason for that was PVC prices going up and we were able to pass on the increase in prices to our customers.

Chintan Sheth: Correct. They could benefit from it.

Niraj Kedia: Yes. So we cannot have a one-way street.

Chintan Sheth: Correct. But from a business perspective, how do -- how should we manage it? Sometimes, when we were guiding that these prices are unsustainable, the \$1,500, \$1,600 of PVC. At that point in time would be in a better position to curtailed down our PVC resin manufacturing and source it from the market at the market price and convert the price?

Niraj Kedia: Yes. See curtailing resin production is not the answer, because that will go in a very different tailspin. There are fixed costs associated with the plant. So that is not the right thing. The best way to deal with such a scenario are to my personal opinion. You have to have a cushion in a strong balance sheet. So you have reserves with you. You have adequate cash.

To take care of these steps and at the same time keep a very minimalistic or a lower level of inventory, which is what we always do. Unfortunately or fortunately what happens is Q2 and when our jetty closes. So we have to stock over the storage and what happened in this quarter, could have been actually a worse time to happen. So it's part of doing business.

Chintan Sheth: No, I understand that. I'm just trying to -- anyway, we have some nimble flexibility to absorb -- flexibility to reduce production. So at least the fixed costs are covered, but we shouldn't have this kind of environment to hold such large inventory. Then we were all also up a view that the prices will crash at that point in time.

Niraj Kedia: So you are absolutely right, Chintanji. But see even in the last two years, every quarter when we were speaking or we were doing our own analysis, everyone would expect that prices will correct, but they never corrected. The ability to predict when prices would correct is very difficult.

Moderator: Thank you. A reminder to the participants anyone who wishes to ask a question may press star and one at this time. The next question is from the line of Vipul Shah from Sumangal Investments.

Vipul Shah: Happy Diwali to all management team. Sir, my question is are we seeing any market share losses in agri or non-agri, your comment please?

Niraj Kedia: No, not really.

Vipul Shah: And sir, what was our last quarter CPVC volume?

Niraj Kedia: Q1, you mean?

Vipul Shah: Yes. This quarter, it is 4,000 tonnes if I heard you correctly, sir.

Niraj Kedia: Yes, you were right. So Q1, so we were 3,670 tonnes, 3,700 tonnes you can assume.

Vipul Shah: So is there any seasonality in CPVC pipe business, sir?

Niraj Kedia: Typically, there is seasonality. Q2 is generally weak.

Vipul Shah: Q2 is generally weak.

Niraj Kedia: Because see, in Q2 there is monsoon so construction activity slightly goes down. So ideally it would be weak and that is how it has been even historically.

Vipul Shah: But this quarter we have shown a good increase?

Niraj Kedia: Yes.

- Moderator:** Thank you. Reminder to the participants anyone who wishes to ask a question may press star and one. The next question is from the line of Dheeresh from White Oak. Please go ahead.
- Dheeresh Pathak:** Just to understand better, how many days of inventory is being kept by the Pipes and Fitting division? Because it seems that when prices were going up like you explained, right. That the Pipes and Fitting division will keep the resin which will buy from the resin division. So in a falling resin price, were impacted by the inventory they keep, but in a rising resin price they did not seem to have benefited that much. So what...
- Niraj Kedia:** That was benefit.
- Dheeresh Pathak:** Not to the extent that other companies saw. Because I think larger benefit was booked in the resin division, it seems. But now when prices are falling, the impact is also coming in the pipe division. So how many days of inventory typically the pipe division keeps?
- Niraj Kedia:** See generally, we keep...
- Anil Whabi:** See normally, total inventory is more than a month, about a month. And transfers always happen at the market price. So it is not that what something is done at the cost of Pipe and Fitting segment. So always a particular point of transfer whatever is the market price the transfer happens at that price.
- Dheeresh Pathak:** Okay. And typically, a month inventory is kept at the Pipes and Fittings?
- Anil Whabi:** And this is also a function of the drop. You see in these two quarters, the prices have fallen by almost 40%. While the rise when it was there. I don't think, in particular, one or two quarters we saw a rise of 4%. To that extent may not be seen.
- Moderator:** Thank you. The next question is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.
- Aasim Bharde:** I had a question on PVC imports. So rather than 1 factor dumping. So would you guys have a sense on how imports will shape up in November? So you mentioned that after investigations on dumping have started that has led to PVC slowing down, the dumping rather is slowing down. But clearly not enough given that there was a price cut already and one more is expected in a week or two?
- So this will probably mean that shipments are already booked and on the way at hence the price pressure. So basically, I just wanted to understand like from your sense, when does the source of imports basically dry up?
- Anil Whabi:** No. Today, see this weakness in the market is global today. So prices are lower in US, demand is lower in US the prices being quoted by US suppliers are also low for December shipments. So it is not necessarily China dumping, which is driving the lower prices.



Finolex Industries Limited
October 25, 2022

- Aasim Bharde:** Okay. So I think maybe like two, three months ago, the Chinese dumping was a major concern, But the global PVC otherwise is fine, right?
- Anil Whabi:** No. You're right. You're right. In three months ago or a quarter ago the US prices, which were being quoted were not so low. But then US, Europe also because of all these global situations, there is oversupply.
- Aasim Bharde:** Okay. So then basically, I mean, one can probably cross their fingers and say that PVC prices may not go down further by a lot. But there's no scope for any near-term prices going up, right? It's basically stable or going low from here?
- Anil Whabi:** Yes, you are right.
- Aasim Bharde:** Okay. And just 1 clarification on the inventory a bit in the Pipes division. When you said just 1 month of inventory that is just raw materials, right? Or do you keep also finished goods inventory?
- Anil Whabi:** No. It's ...see, raw material inventories also kept in all the plants in pipe plants, then there is work in progress compound stage and there is finish inventory also in the warehouses.
- Aasim Bharde:** So when you say one month, like what exactly does that pertain to?
- Anil Whabi:** So while inventory together a little above one month, it would be there always.
- Aasim Bharde:** Okay. Between the three categories you mentioned?
- Anil Whabi:** Yes.
- Moderator:** As there are no further questions, I now hand the conference over to Mr. Arun Baid for closing comments. Over to you, sir.
- Arun Baid:** Yes. I would like to thank on behalf of ICICI Securities to the management for allowing us to close the call. Any closing comments from you Whabi sir?
- Anil Whabi:** No. Thank you all and let's hope for the better times. Thank you.
- Arun Baid:** Okay. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.