# "Finolex Industries Limited
# Q1 FY '24 Earnings Conference Call"
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**MODERATOR:** **MR. ARUN BAID – ICICI SECURITIES**

**Moderator:** Ladies and gentleman, good day, and welcome to the Q1 FY '24 Earnings Conference Call of Finolex Industries Limited, 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 from ICICI Securities. Thank you, and over to you, sir.

**Arun Baid:** Good morning, ladies and gentlemen. On behalf of ICICI Securities, I welcome all to the Q1 FY '24 Post Results Con Call of Finolex Industries. From the management side, we have Mr. Ajit Venkataraman MD; and Mr. Niraj Kedia, CFO.

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

**Ajit Venkataraman:** Thank you, Arun. Good morning, ladies and gentlemen. Welcome to the investor conference call for Q1 FY '24 earnings release. We thank all of you for your continued support and interest in Finolex Industries Limited.

Q1 FY '24 continues to see strong volume growth on the back of improvement in demand dynamics in both rural and urban segments. Operating performance has improved despite correction in PVC prices. While the performance of pipes and fitting segment has been phenomenal, the PVC segment has -- was adversely impacted due to sharp contraction in the PVC/EDC and PVC/VCM delta during the quarter. However, this trend seems to be improving in the current quarter, with some feedstock prices normalizing.

Let me give you some of the performance indicators for the first quarter. Q1 FY '24 highlights. Total income from operations of INR1,179.17 crores, was almost at the previous year's level of INR1,189.81 crores in Q1 FY '23. EBITDA for the company for the quarter Q1 FY '24 increased 21% year-on-year basis to INR152.47 crores as compared to INR125.91 crores in Q1 FY '23. EBITDA margin also increased on a year-on-year basis to 12.93% this quarter compared to 10.58% in the corresponding previous quarter of Q1 FY '23. The company reported profit after tax of INR110.88 crores in Q1 FY '24 as compared to INR100.9 crores in Q1 FY '23 and INR158.35 crores in Q4 FY '23.

Now getting into the segmental performance, pipes and fittings. Pipes and fitting revenue increased by 2% to INR1,154.21 crores in Q1 FY '24 from INR1,132.01 crores in Q1 FY '23. This was despite a nearly 30% drop in PVC prices since July of last year. Volume in pipes and fittings segment reported a robust growth of about 28% year-on-year to 92,181 metric tons in Q1 FY '24 against 71,960 metric tons in the corresponding last quarter. The EBIT in pipes and fittings segment was INR126.44 crores in Q1 FY '24, significantly up by 197% on a year-on-year basis compared to INR42.58 crores in Q1 FY '23. On a sequential basis, EBIT improved 40% compared to INR90.32 crores in Q4 FY '23.

Moving to PVC Resin segment. Revenue in resin segment decreased 54% and from INR784.58 crores in Q1 FY '23 to INR359.41 crores in Q1 FY '24. Volume in the resin segment decreased 27% to 46,074 metric tons in Q1 FY '24 against 62,746 metric tons in Q1

FY '23. EBIT in resin segment was INR3.12 crores in Q1 FY '24 compared to INR72.9 crores in corresponding previous year's quarter. The company continues to have a strong balance sheet with a net cash surplus of roughly INR1,650 crores as on 30th June 2023. Let me now leave the floor open to questions. Thank you.

**Moderator:** Thank you very much. Our first question is from the line of Bhavin Pande, from Athena Investments. Please go ahead.

**Bhavin Pande:** I just wanted to understand why are we witnessing this sort of decline in the resins business? And also in your opening remarks, you mentioned the delta between CPVC and PVC. And so I just wanted to understand how does it impact the business?

**Niraj Kedia:** So see, in the resin business, you would appreciate this is more of a very commodity kind of a business. So what happens, PVC, which is the output, it is priced in India as per import price parity. And the feedstock are mainly EDC and VCM. Generally, there is not an immediate impact of PVC price rises on the feedstock and vice versa. So from last year onwards, PVC prices have been declining. If you recall from June of last year onwards, May, June of last year, April, May, June, since then, PVC prices have been going down from, say, 135 levels, they have come down to now 78, 79 levels.

The feedstock prices have also corrected, but there is generally a lag. So in this quarter, the delta between PVC and EDC actually came down as compared to previous year and 2 years before that also. So it was less at around USD460 levels. Whereas the VCM to PVC delta, it came down to even below USD150. But that is how the industry is, that is how the dynamics of this commodity business run, and that is why you see the shrinkage in the profitability or the margin of the resin segment. But now as we speak, there has been an improvement in the delta. So that's how it has impacted us.

**Ajit Venkataraman:** And in terms of volume, the volume drop, a significant contribution to the volume drop has been almost a month shut down we had taken for maintenance.

**Bhavin Pande:** Okay. Okay. So for us to -- of course, it is the nature of the beast with deltas and everything narrowing and expanding. So is there any way that we can protect ourselves on this? Or it's just the way it would operate?

**Niraj Kedia:** Generally, it is the way that it will operate. The best way to protect oneself is to have as minimum inventory as possible, okay? But you'll also appreciate in the last 2 years, FY '21, '22, the business also gained a lot from this delta. We kept on buying lower price feedstock and PVC prices were going up. So we also had an advantage. Last year, if you see Q2, there was a sharp decline in PVC prices. So we incurred even losses in that segment.

But the answer to your question is generally to have as minimum stock available as possible. What happens with us is generally during Q1, from May onwards, our jetty or the port in Ratnagiri is closed. Hence, we generally stock up. Most of the years, we stock it up to the brim. But this year, looking at the trends, for EDC at least, we did not stock up the entire quantity. What we did was because EDC has the ability to be transported on road also. So whatever was required for our PVC generation from May to September, we did not buy entire stock by May. We are getting consignment shipments outside of our jetty and transporting it by road to our plant. And hence, we'll be able to see the benefit in this quarter.

**Bhavin Pande:** And just one last thing. Would we like to sort of look at other segments in terms of expanding our business as we could see larger players are already doing it? Or we would want to achieve a certain scale and then think of those initiatives? And to add on to that, do you think it is the trough for this spread between EDC, VCM and PVC? That's it.

**Ajit Venkataraman:** So Bhavin the price and fitting segment has got enough headroom to grow, whether it is agri segment or non-agri segment. So as a company, we have decided to stay very focused to this segment. And therefore, we are not looking at any other success adjacencies in the near future. And what was your question on PVC?

**Bhavin Pande:** The spread between ETC, VCM and the PVC, do you think it is the bottom of it? Or we might still see some sort of narrowing happening?

**Niraj Kedia:** What we have seen in the first quarter has been the bottom in the last 3, 4, 5 years. But whether it has bottomed out, I mean it can be anybody's guess. It seems so, but this is all subject to price situations.

**Moderator:** Thank you. Our next question is from the line of Gokul Maheshwari from Awriga Capital. Please go ahead.

**Gokul Maheshwari:** My one basic question from a capital...

**Niraj Kedia:** Hello?

**Moderator:** I think the participant has left the queue. May we move to the next question? Our next question is from the line of Sonali from Jefferies.

**Sonali:** Sir, my first question is now you have posted a very healthy volume growth in pipes and fittings at 28% year-on-year. And this is despite the unseasonal rains across multiple regions in India in Q1. So could you please let us know what are the key regions or the demand pockets from which this kind of growth has come through?

**Ajit Venkataraman:** Thanks for your question, Sonali. There is the -- whether it rains or not, pipelines are necessary for irrigating the land. This is especially in the agricultural segment. When there is a deficit in rain, water needs to be transported from water source to the farms. And when there is excess rain and the crop is good, the farmer has money to invest in pipelines from water source to land for taking care of those eventualities when there is a deficit in rainfall. So either way, the headroom for growth in the agri segment still exists.

When you look at the construction segment, it's -- in India, it is growing at a healthy pace of excess of 15%, and that translates into the plumbing and sanitation segment growth as well. So if you look at both these segments, the growth has been fairly good. And that translates into the demand, which is getting generated for the pipes and fitting industry.

**Sonali:** Sir, what was our mix of agri versus non-agri in Q1?

**Niraj Kedia:** In volume terms, it was 70-30.

**Sonali:** Okay. Still remains 70-30. All right. Sir, my second question is, could you help us with, a, the raw material numbers, please, so PVC, EDC, VCM and PVC to EDC spread in Q1 this year versus last year?

**Niraj Kedia:** Sure. So this quarter, your EDC was roughly USD335 and VCM was USD670. The PVC/EDC delta was USD468. And the PVC/VCM delta was USD133. You also want the corresponding numbers for last year?

**Sonali:** Yes, please.

**Niraj Kedia:** So last year's same quarter, EDC was USD668. VCM was USD1,174. The PVC/EDC delta was USD785, and the PVC/VCM delta was USD279.

**Sonali:** All right. Sir, could you please summarize or remind us what has been the PVC movement since April this year, that's in Q1? And are there any -- what is the kind of trend that we are seeing in July, please?

**Niraj Kedia:** See, since April, PVC prices have gone down by INR8.5, okay? In fact, we started -- 1st April onwards, prices have gone down. From mid-June onwards, there was a correction. So in fact, prices went down by more than INR10. From mid-June onwards, there was a slight increase, and the price was stable. They have gone up again this week. So as of now, the outlook looks like stable.

**Sonali:** Sir, what are the prices right now?

**Niraj Kedia:** They are in the INR80 range.

**Sonali:** Okay. Got it. Got it. Sir, and lastly, could you help us with the CPVC volume and revenues for this quarter versus last quarter, please, as in same quarter last year?

**Niraj Kedia:** We don't give the compound wise details any longer because that is not a separate segment for us. So I think you should look at the business as a whole of the Pipe and Fittings.

**Sonali:** Okay. Got it. Got it. Sir, just 1 last question, if I may. What was the volume growth in your agri portfolio versus non-agri this quarter?

**Niraj Kedia:** So in volume terms, our total Pipe and Fittings grew by 28%. In fact, interestingly, both of them have gone up by 28% as compared to last year.

**Sonali:** Okay. Okay. Okay. And you mentioned that you had taken a plant shut down for maintenance in the PVC Resin segment. Which month was that?

**Niraj Kedia:** That was in April.

**Sonali:** All right. And it began -- it resumed from May, is it?

**Niraj Kedia:** Within April only, it started and the shutdown began, and it was over within April itself.

**Moderator:** Thank you. Our next question is from the line of Praveen Sahay from PL India. Please go ahead.

**Praveen Sahay:** The first, if you help me with the fitting contribution for the quarter?

**Niraj Kedia:** Again, because this is not a separate segment for us, we restrict...

**Praveen Sahay:** Any indications, sir, like it's maintained, or it's improved anything indication qualitative, which was...

**Niraj Kedia:** Constantly improving slightly. With our new fitting factory coming up also, there has been a push.

**Praveen Sahay:** Okay. And second, is there any inventory gain or loss do you have in this quarter?

**Niraj Kedia:** See, in the pipe segment, as you know, the prices went down net basis by INR8.5. But what has happened, actually, the impact is although generally difficult to find -- to compute, but the inventory levels that we were carrying in the pipe fitting business was actually very low, given the high demand in the season, which has continued since November of last year. So we were actually on a very low level of inventory. So that way, the impact of inventory loss has not been material.

**Praveen Sahay:** Okay. And then you're in the Pipe and Fittings, 28% of the growth you had delivered. And as you are mentioning, 70% is in agri. Any geographical colour can you give like from where you got a very high growth or...

**Niraj Kedia:** The growth was from all the regions. See if you look at how the quarter went, we started April with the pair of El Nino, delayed rains, high temperatures in the agri side. So in fact, the demand was from all corners. It is now as we moved into July that there has been the flood situation everywhere. But otherwise, when we started the quarter, it was dryness everywhere and fear of prolonged dry spell and all of that. So that way, demand has come from all segments, all geographic regions.

**Praveen Sahay:** Sir, just a last question on your PVC Resin. As you had already mentioned that the shutdown of your plant in April, and that, I believe, will lead to the lower utilization of the PVC Resin capacity. But I have never seen such kind of things in the past for the first quarter. So what exactly...

**Niraj Kedia:** So generally, you are right, actually. Our shutdown actually happens. We try to do it just when the monsoon is ending around that time in October, November. But this time, we -- our maintenance team and our engineering team, they decided to run the plant continuously. So this shutdown was deferred from September, October of last year to April of this year.

**Praveen Sahay:** And there is nothing to do with the availability of raw material?

**Niraj Kedia:** No.

**Moderator:** Thank you. Our next question is from the line of Hemang from Anvil. Please go ahead.

**Hemang:** I just wanted to know because of the lower PVC/VCM delta, so are we manufacturing to...

**Niraj Kedia:** Can you speak up a bit, sorry, but we're not able to hear you very clearly.

**Moderator:** So Mr. Hemang has left the question queue, or his line has dropped. I'll look into that. Could we move to the next participant?

**Niraj Kedia:** Yes, please.

**Moderator:** Thank you. Our next question is from the line of Utkarsh Nopany from Haitong Securities. Please go ahead.

**Utkarsh Nopany:** Sir, my first question is on pipe segment margin. So if we see our pipe sales volume in this June quarter, it is almost similar to what we have done in last December quarter. And despite inferior mix as Q1 being agri-dominated quarter and very low PVC Resin prices, what we see that our pipe reported EBIT margin has improved sharply from 6% in last December quarter to 1 year record high level of 11% in the June quarter. Sir, can you give a sense like what has led to such sharp improvement in our pipe segment margin? And what would be our sustainable pipe EBIT margin going forward?

**Niraj Kedia:** Sure. So as I said, inventory losses were not material because we had low levels of inventory in the Pipe and Fittings business. The -- when -- if you look at, the numbers were slightly higher than Q1. In fact, they were 10% higher. So when you have higher volumes, there is a better absorption of the overhead. Plus, in this quarter, we have seen fuel prices -- sorry, fuel prices gradually coming down. So that is also impacted. As we have said in the past also, about INR12 is something that we feel is sustainable at a full year level.

**Utkarsh Nopany:** Sir, that is the pipe EBIT per kg guidance you are giving, sir, of INR12 per kg?

**Niraj Kedia:** Yes, yes.

**Utkarsh Nopany:** And sir, like since Q1 is agri dominated where we have done close to around INR16 EBITDA per kg. So going forward, can we do a similar kind of a run rate?

**Niraj Kedia:** Sorry, can you repeat the question?

**Ajit Venkataraman:** Sorry, your question was?

**Utkarsh Nopany:** Our pipe EBITDA per unit was around INR16 per kg in this June quarter. So can we expect to clock similar kind of a run rate going forward?

**Niraj Kedia:** As I said, see some of this is also -- we are entering our lean season, Q2. So volume decline here will also have an impact. So as I said, on an EBIT basis, INR12 is something that we can -- we feel is reasonable to accept on a full year basis.

**Utkarsh Nopany:** Okay. Sir, second, for pipe division, if you can give a guidance on the volume outlook and capacity expansion plan for FY '24?

**Niraj Kedia:** So if you see in the last year, in the Pipe division, we have added 12,000 capacity in fittings. And during the whole year, on a modular basis, we added roughly 20,000 tons of capacity in our existing plants. So we used to have a capacity of 370,000 tons in pipes. That has gone up to roughly 390,000 tons and fittings of 12,000 tons of our own capacity, which has come. So as such, this year, we don't foresee any requirement to add any modular capacity also in pipes and fittings.

**Utkarsh Nopany:** Okay. And the volume growth guidance for FY '24?

**Niraj Kedia:** See, on a per year basis, at times, because given the last year's high base, there can be plus or minus. But on a 4-, 5-year basis, 15% CAGR is something that we are very confident of.

**Utkarsh Nopany:** Okay. And sir, like as we are sitting with a pretty large cash in our book, do we have any plan to enter into a new product category in the pipe division, like infra pipe or water tank, or any new product category in the building material space over the next 1 to 2 years EBIT?

**Ajit Venkataraman:** See, as I mentioned, there is enough growth opportunity in the Pipes and Fittings segment, both in the agricultural and in the plumbing and sanitation segment. At this point of time, the company is not looking for towards going into adjacencies.

**Utkarsh Nopany:** Okay. And sir, like as a pipe volume is growing at a pretty healthy rate, by when do you see that we need to stop selling PVC Resin in the external market, and we also may need to procure resin slightly for our pipe business?

**Ajit Venkataraman:** So as it is, we are -- we have sufficient capacity for the next couple of years. And most of our resin, which we produce, is consumed internally. There's very little, about 10% or so, that is sold in the outside market. And whenever we need additional requirement, we buy it from the open market.

And what was your second question?

**Utkarsh Nopany:** Sir, like by when we see a possibility that we may need to buy PVC Resin slightly from the external market for our pipe business?

**Ajit Venkataraman:** So for example, last quarter, we already did because since our plant was under shutdown for maintenance, we already procured from the open market.

**Utkarsh Nopany:** Okay. Sir, lastly, on the capital allocation part. Earlier, we mentioned that we will take a decision on the better distribution of surplus cash to the shareholders once PVC Resin prices stabilize. So by when we can expect any action on this trend, sir?

**Niraj Kedia:** That should be soon. But putting a date to it, this is a bit difficult.

**Utkarsh Nopany:** Sir, can we expect anything to happen in FY '24?

**Niraj Kedia:** Let's see. Let's see how the year goes.

**Moderator:** Our next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead. Mr. Karan, your line has been unmuted. You can go ahead and ask a question.

**Niraj Kedia:** He dropped out.

**Moderator:** So we move to the next participant. Our next question is from the line of Udit Gajiwala from Yes Securities. Please go ahead.

**Udit Gajiwala:** So I wanted to check, you mentioned that your EBIT per kg has improved because of better volumes and lower fuel costs. But on a sequential basis, if you look at then was your product portfolio better in Q1 versus Q4? Because sequentially, the volumes are not kind of flattish.

**Niraj Kedia:** No. The mix has more or less remained the same in Q4 and Q1.

**Udit Gajiwala:** Okay. Understood. And sir, can you explain -- I mean, on your peak capacity, which is close to 4.20 lakh, excluding your outsourced fittings, what would be the peak utilization on annualized basis that you can hit for pipe business?

**Niraj Kedia:** See, if you see last 3 quarters, we have sold roughly 2.5, 2.6 lakh tonnes. So every quarter on an average, 85,000, 90,000 tonnes we have been selling. So if you see that -- and still, this is not a peak. If we have done 92,000 tonnes, 100,000 tonnes is something that we can produce in a given quarter.

**Udit Gajiwala:** Okay. Okay. So that gives an annual run rate of 4 lakh. Sir, do we see any capacity constant coming in by FY '25, given the growth that you are projecting of 15%?

**Niraj Kedia:** So not really because as I said, we have our own capacity of pipes and fitting taken together at 400,000 tonnes, plus we have external capacity to the tune of 70,000, 80,000 tonnes. So 470,000, 480,000 tonnes capacity we have, including outsourced capacities.

**Moderator:** Thank you. Our next question is from the line of Vignesh SBK from KSEMA Wealth. Please go ahead.

**Vignesh SBK:** Sir, just wanted to understand on the fitting segment, like how is the growth opportunities there? And is it relatively a higher-margin business?

**Niraj Kedia:** Yes. Fitting is generally a higher-margin business because also the capex involved is higher. And on that, if you remember last quarter, in March of 2023, we started our own fitting factory that is shaping up pretty well. By end of this month or early next month, we will be reaching our peak production capacity, peak installed capacity of that plant. So, it is doing good.

**Vignesh SBK:** Okay. Any internal targets for a longer term on this fittings business? Do we have any scale up kind of thing?

**Ajit Venkataraman:** The current factory can be expanded, and therefore, it can accommodate more machines. So we are looking at taking the necessary steps to grow this business.

**Moderator:** Thank you. Our next question is from the line of Ajay Sharma from Maybank. Please go ahead.

**Ajay Sharma:** I want to check, actually, how does the delta translate into your EBIT? Basically because you almost at a breakeven situation, whereas the deltas are still positive. So can you explain on that?

**Niraj Kedia:** Yes, the delta is generally the delta between the material to material values, okay? Plus, these are IHS averages for the month. Our procurement and selling prices are not exactly equal to the delta. Plus, there is also a conversion cost, which is on this delta. So these deltas generally when they are spoken about, they are material to material differences.

**Ajay Sharma:** And of the PVC/EDC and PVC/VCM, like, how does it translate for you? Which one is more important and what ratio, in terms of contribution?

**Niraj Kedia:** Yes. So see the value addition is more when you go from the EDC to PVC. See the way it works is, you convert EDC and ethylene into VCM, and then you convert VCM into PVC. So obviously...

**Ajay Sharma:** So are you buying EDC or you're buying VCM as well?

**Niraj Kedia:** So we have 2 lines. We have 2 lines. One line converts EDC and ethylene into VCM. And one line, it takes VCM from outside and converts into PVC. So the EDC to PVC line is 150,000 tonnes capacity. And the VCM to PVC capacity line is 120,000 capacity.

**Ajay Sharma:** Okay. So you would be impacted in that sort of ratio basically for the contribution, right?

**Niraj Kedia:** Yes.

**Ajay Sharma:** Okay. And so at these kind of deltas, basically you breakeven, is it fair to say or there was something inventory loss in the resin side this quarter?

**Niraj Kedia:** Again, inventory loss, per se, we did not -- it is difficult to consume -- to compute. But if you see -- because of this adverse delta, that is why when we bought EDC and VCM towards the end of March and April. And by the time they were ready to be sold in the market, PVC prices had gone down. That is where we suffered the shrinkage of margin in this segment.

**Ajay Sharma:** Yes. So to some extent, it's sort of inventory loss in some ways, basically, because your finished product you to pass on immediately, whereas raw material has been consumed -- bought at a higher price, right, basically?

**Niraj Kedia:** Correct. Correct.

**Ajay Sharma:** All right. Okay. And then for -- I mean, for this year for PVC Resin, what's the production target now, considering you did only 40,000-something in the Q1?

**Niraj Kedia:** So we should be doing roughly 230,000 tonnes during the year.

**Ajay Sharma:** And next year, then you go back to 250, 260, is it or...

**Niraj Kedia:** Yes.

**Ajay Sharma:** Right. Okay. And then for, I guess, for Finolex Cables holding, which you have, is there any plan to have any sort of group level restructuring? Because it's not really yielding any benefit for Finolex pipe shareholder at this point of time. Neither do you consolidate, nor do we get any fair dividend from that? So I'm just wondering, and plus there is a kind of fight between the brothers. So what's the plan medium to long term for that?

**Niraj Kedia:** See, no plan of disposing that investment as of now. So as we speak, the investment continues in our books. That's how it is.

**Ajay Sharma:** But is there no way to consolidate it into the P&L, right, basically?

**Niraj Kedia:** No, no.

**Ajay Sharma:** So currently, we are just getting the dividend, which is also not very big, actually.

**Niraj Kedia:** Yes.

**Ajay Sharma:** Right. Okay. So I guess when you talk about the corporate action, is there a plan to either do a buyback or give a generous dividend? Or is there anything else you're looking at?

**Niraj Kedia:** It could be either. It could be one of these 3. Either we give a buyback, we offer a buyback or we give an exceptional dividend, or we use this money for our expansion. One of these 3 would happen.

**Ajay Sharma:** Right. Okay. Okay. And finally, I mean, considering the industry scenario, why are you not guys being more aggressive in terms of capex and putting up more capacity, I guess? Because with the growth is surprising on the upside so I'm just wondering whether you're being conservative?

**Ajit Venkataraman:** So we have sufficient capacity at this point of time for the next couple of years. And we are currently evaluating the expansion plans at the moment. As we had mentioned ahead as well, for fittings, we have made the investment over INR100 crores in a new factory, state-of-the-art facility in Pune. And we have expanded the fittings capacity to over 25%.

**Ajay Sharma:** Right. Is there a normalized spread for the PVC Resin business, like per tonne, which you could target? Like, I guess, you made as much as -- you are targeting INR14 to INR15, if I remember correctly earlier. So is that -- does that still hold? Or you...

**Niraj Kedia:** Yes, that still holds. See, normally, if you see historic levels the EDC to PVC delta, 500, 550 something, which -- generally that is where it ranges. Last 2 years, after COVID, the delta just widened exponentially and that was obviously not sustainable. So, if you look at the long-term historic averages, that is the range, USD500, USD550.

**Ajay Sharma:** And for VCM?

**Niraj Kedia:** VCM is USD200, USD250.

**Ajay Sharma:** Okay. So in a normal year, you should be able to do this INR14 to INR15 per kg in terms of the EBIT for the PVC Resin segment, right?

**Niraj Kedia:** Yes.

**Moderator:** Thank you. Our next question is from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

**Vipulkumar Shah:** Sir, can you directionally say the CPVC volumes, what type of growth in terms of percentage we are seeing?

**Niraj Kedia:** So CPVC volumes have grown at similar levels. So they are 20% higher as compared to last year.

**Vipulkumar Shah:** 20%?

**Niraj Kedia:** Yes.

**Vipulkumar Shah:** And fittings also, can you comment directionally?

**Niraj Kedia:** Directionally, it has been more or less in line of overall Pipe and Fittings growth, 15%.

**Vipulkumar Shah:** And sir, lastly, what is the current PVC/EDC delta as we speak today?

**Niraj Kedia:** As we speak today, the PVC/EDC delta is at 540 levels.

**Vipulkumar Shah:** 540. Okay.

**Niraj Kedia:** And the PVC, VCM delta is at 200 level.

**Vipulkumar Shah:** And sir, your guidance of around INR12 per kg. Is it at EBIT level or EBITDA level? Can you clarify?

**Niraj Kedia:** EBIT level.

**Vipulkumar Shah:** Sorry? EBIT level.

**Moderator:** Thank you. Our next question is from the line of Sneha Talreja from Nuvama. Please go ahead.

**Sneha Talreja:** Just 1 question from my end. Sir, if I look at the current growth rate, although it's 28% volume growth that we have seen. If I look at it on a CAGR basis, even if it's a 5-year CAGR or a 6-year CAGR, the growth comes back to be only 3.5% to 4%. Even if I look at it, your next year growth from current numbers, even if I put a 15%, the growth CAGR still looks out to be dull at about 6-odd percent. So any thoughts there? Why are we still lacking the industry growth rate in terms of volumes? What could be the reason?

**Niraj Kedia:** So while looking at it, if you ignore the COVID period, then I don't think the CAGR is lower than industry. In fact, if I have to just compare this Q1 with Q1 of FY '20, our growth is in the non-agri segment is more than 40%.

**Sneha Talreja:** Okay. And sir, what's your now -- so given that we are focusing a lot on the non-agri side also, our mix actually still continues to be around 70-30 on a volume basis. Any thoughts there when can you see the meaningful change in this particular delta?

**Niraj Kedia:** Yes, generally, you would see Q4 and Q1 are very agri heavy, okay. So, while there is a substantial growth in non-agri also, but these years being very, very agri heavy, the ratio would be skewed probably in Favor of agri. But as the year goes by Q2 and Q3 when they come in, then there is an improvement in the non-agri mix ratio as such.

**Sneha Talreja:** Understood. Just lastly, if at all you can highlight the capex for the next 2 years, FY '24 and '25, what are the plans?

**Niraj Kedia:** See, for FY '24, capex is in the range of INR200 crores to INR250 crores.

**Sneha Talreja:** Right, sir.

**Niraj Kedia:** '25 should be in the same range.

**Sneha Talreja:** And that's largely to do with PVC Resin and maintenance?

**Niraj Kedia:** Yes, PVC Resin maintenance and also moulds for the Pipe and Fittings business.

**Moderator:** Thank you. Our next question is from the line of Hitarth Kapadia, ValueQuest Investment Advisors. Please go ahead.

**Hitarth Kapadia:** I wanted some colour on what is the CPVC prices currently? And what would be the trend expected further forward?

**Niraj Kedia:** CPVC prices, I mean, it's a bit -- I mean, there are various sources. So this price is -- there's not a standard pricing, which happens in CPVC as compared to PVC.

**Hitarth Kapadia:** Okay. And any expectations going forward for this price?

**Niraj Kedia:** See, CPVC prices have not come down the way PVC prices have come down over the last 1 ear or so. So the expectation is that they should slightly inch downwards.

**Moderator:** Thank you. Our next question is from the line of Mr. Rahul Agarwal from Incred Capital. Please go ahead.

**Rahul Agarwal:** Sir, 2 questions. I'll try and restrict to 2 questions. I had more. But firstly, is my understanding correct that South and West is about 2/3 of our business?

**Ajit Venkataraman:** Yes, approximately, yes.

**Rahul Agarwal:** Okay. And when we talk to different companies listed, unlisted, it looks like a lot of companies have put new plants into these regions. I wanted to get your views in case what kind of feedback you get from your channel and your own studies. How does the market look like going forward? Obviously, -- and this is in sync with your strategy of getting more to do with plumbing and agri naturally will come down as a mix. And hence, the ultimate target is to reach 50-50 there.

But given the fact that demand has been good, it just revived because PVC is now down. And you have new supplies coming into these regions. You're obviously trying more to expand into North and East in terms of your channel. But could there be a scenario or a risk where South and West actually sees more supplies from competitors, and hence, we might have some issues here?

**Ajit Venkataraman:** See, it's a fairly competitive market with the presence of all the major manufacturers across the country, and therefore -- and people have adopted either distributed manufacturing or we have adopted centralized manufacturing. There are pros and cons of both. There are advantages and disadvantages of both. So far, it has worked, the centralized manufacturing has worked well for us, but we will evaluate whether to expand into the -- we are currently under evaluation whether we need to expand into other areas. But in terms of competition, it has been this way for a fairly long time now. And we have been able to defend well in the regions where we have strong hold.

**Rahul Agarwal:** Could you elaborate and help us to understand what could be a disadvantage to have a decentralized manufacturing? Like what about top 2, 3 points, please?

**Ajit Venkataraman:** So investment, for example, there are almost about 2,300 SKUs that you need to produce. And for the manufacturers to produce all 2,300 SKUs in all the distributed manufacturing locations, there is a humongous investment necessary in dies, moulds and extruders, etcetera. And beyond a certain point, it will become unviable. So, there are high volume SKUs that gets produced locally, but you still have to depend upon centralized manufacturing for the rest of the SKUs, and therefore, there is an optimization of transportation that will be necessary to get material from other regions to fulfil all the requirements of the local markets.

So there are advantages of making the high-volume producer of SKUs closer to the point of demand. So some people have adopted one and some have adopted the other. So there is no right or wrong answer on this.

**Rahul Agarwal:** Got it. And secondly, your past experience, Ajit, I know you are new in the system, but maybe Niraj can help on this. It's going to be elections next year. Agri obviously is a sensitive topic for the country even today. Demand right now looks good. So my sense is till December, March, things should pan out as expected and as we are also discussing right now. But would you anticipate a hiccup because we're going to get into elections exactly when our season starts, and our 4Q, 1Q is very important for us in terms of profitability. Any initial thoughts how would you look at the season or in your past experience, does it really impact demand? Or is it like smooth sail?

**Niraj Kedia:** Yes, elections do have an impact, to be very honest. But given that we are expecting this El Nino and the damage, which is happening right now because of floods, in my view, I mean, it is difficult to predict right now because we'll have to see how the season picks up end of November, December. That should be a more appropriate time for us to kind of comment on how could we expect next year June.

**Rahul Agarwal:** Okay. But when you say an impact, as in it's a negative impact, right?

**Niraj Kedia:** See what happens is during election at times markets are close. So there is an impact, obviously.

**Rahul Agarwal:** Okay. Okay. Got it. And last one quick one on capex. You said INR200 crores, INR250 crores. And obviously, I'm assuming that's entirely maintenance because you said there is no modular capex involved into fiscal '24. And you are saying your sufficed in terms of pipes and fitting capacity to generate and produce more and sell more in sync with how you look at demand growth. But is it -- my understanding was, frankly, because you produce different sizes, it's really practically impossible to get over 80% utilization on the rated capacity, right? Because the sizes are very different. Is it that you're able to do 85%, 90% utilizations purely because you're producing one size, which is selling the most in the market? Is that understanding correct?

**Ajit Venkataraman:** See, again, answering to your previous question, when you have centralized manufacturing, you are able to utilize your assets much better than decentralized. So that is one of the advantages having a centralized manufacturing. You are able to squeeze out more out of your assets.

**Moderator:** Thank you. Our next question is from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

**Keshav Lahoti:** I know it's difficult...

**Moderator:** Mr. Keshav, may we request you to speak up as your voice is not audible.

**Keshav Lahoti:** Yes. So, I just want to understand, as we already have INR1,650 crores cash on books and next 2-year capex is also INR400 crores to INR500 crores. So we have a good amount on the balance sheet, while the management is not confident to come up with capital allocation plan even in this year. So if you have no plan to enter in other segment also, so why is it not clear?

**Niraj Kedia:** So you are right. See, generally, we are not used to carrying so much of cash. If you're not able to allocate this in the business, this will go back to the shareholders.

**Keshav Lahoti:** Understood. So we should expect in this year only because...

**Niraj Kedia:** Let's see.

**Keshav Lahoti:** Okay. One last question from my side. Your CPVC, both the portfolios have grown strongly, but CPVC growth was lower versus the pipes at 20%. So is it a market link, whether the CPVC growth in market was lower versus normal pipes? Or is it company specific?

**Niraj Kedia:** No, no, it is normal.

**Ajit Venkataraman:** So it has to be looked at an overall level, not at individual material level.

**Moderator:** Thank you. Our next question is from the line of Akshat from Flute Aura. Please go ahead.

**Akshat:** I just wanted you to share something on depreciation, why it has increased sequentially and on a year-on-year basis?

**Niraj Kedia:** Yes. So depreciation, a couple of reasons. One is we frequently carry out an evaluation of the useful life. So because of that, some INR5 crores, INR6 crores impact has come. As we go during the -- throughout the year, this should come back to, say, INR25 crores, INR26 crores a quarter.

**Akshat:** Okay, sir. And a quick shed on other income as well. It has grown sequentially and year-on-year basis as well.

**Niraj Kedia:** So other income is mostly our income in the investments. So 2 factors to it. One is the cash balance has also gone up, plus if you will compare it with last year, the overall yields have also improved. So that is the reason.

**Moderator:** Thank you. Our next question is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.

**Aasim Bharde:** Just one question. Again, this is on the pipe margins. So I heard your comments to earlier participants and I learned that the agri, non-agri mix has remained at 70-30, and it's probably almost flattish Q-o-Q. The only difference, I feel, is that the fittings plant was basically non-existed in Q4, which has been there for a full quarter. So would that be the key difference and explain the sudden margin shootout?

**Niraj Kedia:** So that does help us in the margins. But if you see, we are still in the ramping up stage. We have still not reached the full capacity utilization of the fitting plant. So that has not made a very significant dent. Yes, that has helped us, but that does not make as much difference as you kind of indicated.

**Aasim Bharde:** Sir, is there a one-off then that you would want to highlight?

**Niraj Kedia:** No, there is no one-off.

**Ajit Venkataraman:** No one-off the product mix. See, we have had a good growth in non-agri segment as well. Volume has been also a good contributor. The fixed costs are better allocated across 92,181 metric tonnes. Also, we had -- we were at a very low stock level as well in terms of inventory. So we were not carrying too much of high-value inventory, which could have created loss as well. So all these contributed to better margins.

**Niraj Kedia:** Plus, I'll just add some more light to this. If you are comparing with last year, last year, because of the dollar movement, we had a forex loss in this quarter, which is not...

**Aasim Bharde:** Forex loss in this -- Okay. Then just wanted to reconcile, we are at almost INR14 EBIT per kg in Q1. And for the full year, if it comes to around INR12 odd, INR12, INR13, when the next quarters will have to be softer, right, despite the fitting mix only improving going forward?

**Niraj Kedia:** Yes.

**Aasim Bharde:** So what would drive the softness? One is the seasonally weak Q2 perhaps? But other than that, nothing should be there, right? So why INR12 per kg?

**Niraj Kedia:** This is something that we say on a full year basis is maintainable. We are being a bit conservative here. So that is the why.

**Moderator:** Thank you. Our next question is from the line of Darshika Khemka from AV Fincorp. Please go ahead.

**Darshika Khemka:** This could be repetitive, but can you please repeat the prices that you have mentioned of EDC, VCM and the deltas as well. I sort of missed that number. And I have another question on the pricing.

**Ajit Venkataraman:** Which quarters do you want? Or you want the current pricing?

**Darshika Khemka:** The current prices and the comparative quarter as well, please?

**Niraj Kedia:** So Q1 last year, EDC was 668.

**Darshika Khemka:** And the current quarter?

**Niraj Kedia:** It is 335.

**Darshika Khemka:** All right.

**Niraj Kedia:** VCM was 1,174, it is 670 now.

**Darshika Khemka:** And the delta?

**Niraj Kedia:** Delta PVC/EDC was 785. This year, 468.

**Darshika Khemka:** All right. And the PVC/VCM delta?

**Niraj Kedia:** VCM was 279. It is 133 now.

**Darshika Khemka:** Perfect. So, I was actually trying to compare the pricing that was reported in the last quarter, that is Q4 FY '23. So I have seen a sequential improvement in the pricing in Q4. So if I calculate correctly, sequentially in Q4, the prices have sort of stabilized and increased by 11% and 14%, respectively, for the resin and the pipes and fitting segment. But this time around, in this quarter, it has sort of dropped down again. So while you've sort of given an indication that you may not see -- this may not be the bottom when do we expect to see a bottom or can you give indication on that?

**Niraj Kedia:** What I said was this quarter what we have seen are the lowest probably in the last 5 years. So in my personal view, we have seen the bottom. But what I caveated was these were commodity prices. You never know what happens in the market. So if you look at it today, as we speak right now, the PVC/EDC delta is at 540, which is better than what we had for the Q1. And the PVC/VCM delta is USD200, which is again better than what we have seen in Q1.

**Moderator:** Thank you. Our next question is from the line of Praveen Sahay from PL India. Please go ahead.

**Praveen Sahay:** Just one clarification regarding the volume. As you said that agri, non-agri, the growth rates were similar. But if I look at your Q1 FY '23 transcript that time the agri mix was around 64% in the volume, and right now it is 70%. It's quite higher volume growth in the agri versus non-agri. Is it correct? Or can you give some more colour on this?

**Niraj Kedia:** Sorry, can you repeat the question? Because if I look at my numbers here, there's a more or less similar ratio, Q1 last year.

**Praveen Sahay:** Okay. So because I was referring to your Q1 transcript -- '23 Q1 transcript only, and that is a number you had given 64% contribution of agri volume versus now it's 70%. So it gives me around 40% of the growth in the agri volume. So that's...

**Niraj Kedia:** That number may not have been rightly put in the transcript.

**Moderator:** Thank you. Our next question is from the line of Yash Goenka from Awriga Capital Advisors LLP. Please go ahead.

**Yash Goenka:** So I wanted to know, so if you grow your volumes and the pipe business can entirely consume the PVC, which you're producing, so will you go ahead and expand the capacity in PVC. The question is broadly around that? Will you be investing more on the commodity part of the business?

**Ajit Venkataraman:** See, we most probably will not expand the capacity because that introduces a lot of variability to our results, but we will try -- we are looking at what else can be done within the plan to maintain the capacity because it's almost a 30-year-old plant.

**Yash Goenka:** Okay. So there is room for debottlenecking and increasing the capacity?

**Ajit Venkataraman:** Correct.

**Moderator:** Thank you. Our next question is from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

**Vipulkumar Shah:** Sir, one small request. Prakash sir has not attended investor call since long? At least he comes once in a year on a call.

**Niraj Kedia:** Sorry, we couldn't hear you, but we gathered your question. We'll try and do.

**Vipulkumar Shah:** Yes. No, this is a request to...

**Niraj Kedia:** Yes, yes, we got it. We'll definitely convey your message.

**Moderator:** Thank you. Our next question is from the line of Abishek from DSP. Please go ahead.

**Abhishek:** Sir, how is the channel inventory looking now?

**Niraj Kedia:** Channel inventory is not very high, and it is not very low level also. If you see in March and because the prices were declining, the channel was a bit sceptical. But since then, prices have been in the last 1 month or so, they have been stable and with this increase. So it is at normal levels, I would say.

**Abhishek:** Okay. And just the other question in terms of -- you spoke about a 15% kind of a sustainable volume growth. How should one look at the agri versus the plumbing mix, if you were to clock a 15% kind of volume growth from here on? And would you need a greenfield capacity expansion to kind of support that sustainable 15% volume growth from here on for next 3 to 5 years?

**Ajit Venkataraman:** Yes. There will be a need for expansion. We believe we have sufficient capacity for the next couple of years. But beyond that, there will be a need for expansion. And the -- see, we would like to defend our agri market, but at the same time, go aggressive with our non-agri. So we expect non-agri to move faster.

**Abhishek:** Okay. So mix could look like more like 50% each in the next 3 to 4 years? Is that the way we...

**Ajit Venkataraman:** For 5-year horizon, that is the intent.

**Abhishek:** Okay. And Ajit, when you kind of joined some time back, your main focus was around increasing the distribution, the touch points. How are you going about it? And has there been some results, which you're already seeing at the ground level? Just some thoughts there?

**Ajit Venkataraman:** Yes, we have -- see, we currently have approximately 800 distributors and almost 22,000 touch points, and we are aggressively trying to increase the number of retail outlets, the reach for our business, which is very important for our non-agri business. And in terms of product availability, we have all the necessary products to satisfy our customers. In terms of growth itself, we have been converting many of our dealers to distributors so that they can serve a lot wider market, and therefore, increase the reach. The other aspect of it is that we have been very focused in getting into many of the large cities, which have been giving us good dividends.

The other area, which we have also focused ourselves -- focused on is on retail branding. Finolex retail branding, which you see the yellow and blue, will be very much visible across the small towns as well as big cities at this point of time. And in terms of advertisement, we have been very focused. We have not gone on a national scale, but we have been very local, in terms of local TV channels, etcetera, where we are able to target our customers much better.

**Abhishek:** Sir, have you improved your pricing vis-a-vis peers or benchmark in the select markets because of all the...

**Ajit Venkataraman:** It is a very competitive market, and therefore, there is -- and it's a commodity product, and therefore, there is not too much scope for differential pricing.

**Moderator:** Thank you. Our next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

**Bhavin Pande:** I just wanted to know how much would be a cash balance as of Q1 FY '24?

**Niraj Kedia:** On a net basis, INR1,650 crores.

**Bhavin Pande:** Sorry?

**Niraj Kedia:** INR1,650 crores on a net basis -- net cash basis.

**Bhavin Pande:** Okay. Okay. And sir, when we look at our return ratios, I mean, the variance is pretty big with the industry. So just wondering if you could throw some light on it? And any sort of initiatives that we can take to navigate our way out of this?

**Niraj Kedia:** See, one is the reason is probably in the mix that we have for agri and non-agri. And that is what we are kind of trying to improve over the last few years, and we have had reasonable success in that field. Other, when you -- if you're talking about ROCE or any other return that you're talking about?

**Bhavin Pande:** Both, both ROCE and ROE. I mean our debt is not that much, so it should be okay with both, just a general perspective.

**Niraj Kedia:** Yes. So that is primarily the reason our agri, non-agri mix.

**Bhavin Pande:** But I'm assuming that non-agri being a margin lucrative, the competitiveness will be extremely high. So is there a way that we can also cover niche for ourselves over there?

**Niraj Kedia:** So that is what we have been doing, to be very honest. And that is why you see, from 80-20 mix, we are towards 70 -- 70, 65 kind of a mix today.

**Bhavin Pande:** This is volume. And what would be the dollar mix?

**Niraj Kedia:** Dollar mix will be slightly more. I mean lesser on the agri and higher on the non-agri.

**Moderator:** Our next question is from the line of Mr. Achal from JM Financial.

**Achal:** Sorry, I'm hopping on one question again. So if I look at the 4-year number 4 years back 1Q FY '20, which is a non-COVID quarter, we had a similar volume of about 92,000 tonnes in terms of plastic pipes and fitting volume. So it looks like it's flattish over a 4 year just to remove the COVID-impacted quarters or PVC Resin prices related impact this quarter. What I'm trying to understand, you've also mentioned that we have seen a 40% CAGR in non-agri. So can you elaborate a bit in terms of agri versus non-agri on a 4-year basis?

**Niraj Kedia:** I did not say -- maybe miss -- you, misheard. 40% is the increase that I'm talking about, okay, what we did in FY '23 versus FY '20.

**Achal:** Okay. On a full year compared to FY '20, you were talking about for FY '23?

**Niraj Kedia:** Yes.

**Achal:** Okay. I understand. Sorry. So what I'm trying to understand is that in terms of the agri growth, what is the sustainable growth? Because you mentioned 15% growth for you over the next 4, 5 years. What would be the agri growth in that time period?

**Ajit Venkataraman:** So agri growth, we expect in the higher single digits, even going forward in the next 4 to 5 years. Again, it is dependent upon a lot of factors, but since there is headroom, we expect it in the single digits, it's not going to go into the double digits, if I look at a broader perspective.

**Achal:** Right. And I presume that is the industry growth, right? Are we looking at industry being flattish, be growing at high single digit to market business?

**Ajit Venkataraman:** So we are looking at growing in line with the market in the agri segment.

**Moderator:** That was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Arun Baid for closing comments.

**Arun Baid:** On behalf of ICICI Securities, I thank the management of Finolex Industries Limited for allows to close the con call. I hand over the call to the management for any closing remarks. Post wishes, we can close the call.

**Ajit Venkataraman:** Thank you. Thank you all for attending the call today. If you have any further questions even after this call, please feel to get in touch with us. Thank you once again, and have a wonderful day.

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