“Finolex Industries Limited
Q1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Finolex Industries Limited Q1 FY2021 Earnings Conference Call hosted by Investec Capital Services. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah from Investec. Thank you, and over to you, Sir!

Ritesh Shah: Thanks, Inba. Thank you all for joining Finolex Conference Call. We have with us from management, Mr. Sanjay Math, Managing Director; and Mr. Anil Whabi, Director, Finance and CFO. I will request the management to have initial remarks, post that we will have a Q&A session. Over to you, Sir! Thank you.

Sanjay S. Math: Thank you, Ritesh. Good morning, ladies and gentlemen. This is Sanjay Math here with you. I welcome you on behalf of FIL, Finolex Industries Limited to the investor conference call.

Hope you are all safe and healthy and take care of yourself and your family and relatives. These are unprecedented times and businesses across the board were impacted by lockdown and Finolex is not an exception. We also had an impact due to lockdown; however, our Agri Pipe sector being exempted from the lockdown, we started our operations by April, and we saw good traction in May and June. Monsoon arrived in mid-June and since then, the operations are now stabilized at a normal level of monsoon operation.

Regarding our performance in Q1 2021, the volumes of both PVC and Pipe segments were down by more than 40%. In Pipe segment, volume drop was 85% in April, 25% in May and about 20% in June. This is because monsoon started a little early; we would have otherwise normally recovered by June.

Overall, revenue drop was 40% and the profit before tax dropped by 33%. Net profit dropped by 22% year-on-year whereas it was only 3.5% on, quarter-on-quarter. EBIT margins have improved to 12.3% from 11.3% in Q1, mainly due to cost-saving measures and better realization.

Margins in PVC segment improved to 7.9% from 7.3%, maybe because of the spread between PVC and EDC. Margins in Pipe segment improved to 10.1% from 8.5% due to better realization and lower costs.

With this opening statement, I will leave the floor open for questions and would be happy to answer. I will only request you that the financials and number-related questions will be answered by Whabi, our CFO, and business-related will be answered by me. He has more data, and he will be able to give you the numbers more correctly. So I will leave it to you now. Ritesh, you please go ahead.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Thanks for the opportunity Sir. Few questions. I just missed some of these opening comments. What we understand that Agri demand has been strong in month of May and June. But still, our volume declined by 40%, where if I look at the lot of peers, their volume has not declined to that extent what we had seen the decline. That is number one. Number two, you mentioned about the Pipe margin, which has improved by almost around 150 BPS on a higher realization and lower cost. So can you just elaborate on that and, because we understand that PVC pipes has a significant fall in this quarter compared to the beginning of the quarter, and it recovered only in the end of the quarter. Why that could be just a margin expansion?

Sanjay S. Math: Your first question is about the volumes?

Maulik Patel: Yes, sir.

Sanjay S. Math: April was just near about a washout. The lockdown started on March 25, and then it continued and agricultural sector was defined as an essential services. It was not only agricultural produce, but inputs as well as infrastructure and the associated machinery and everything. So that is how Agri Pipes was exempted, and we started our operation of selling. So, first thing was the dispatch of the inventory that we had. And the production was then geared up slowly by end of April and we saw that the sales were restricted not because of demand. So there was no demand constraint in April also. It was the constraint on the supply side, basically on two areas. One is the logistics and the second one is the production level. Now logistics was restricted because there were lockdowns here and there. So the transportation sector interstate as well as interdistrict was restricted. Similarly, the trucks and the drivers were not available. The support services on the roads were not available and so there was more a logistical constraint that was there in the initial phase. But as the cargo movement was then released from the lockdown, particularly for essential services, I think slowly that stabilized. April was basically not a very good month for dispatches as well as sales whereas production then started as a constraint because of the restrictions on the movement of people, the number of people that were allowed to be operated and that is how the restrictions controlled more or less the production. But at the same time, most of the companies have made this and Finolex also could manage and operate it better in the month of May and June. So your drop of sales was 85% in April, 25% in May and about 20% in June. I think we would have done better in June had the monsoon got a little bit delayed by another week or 2, but it started early. There was Nisarga Cyclone, which also brought in rains, and then it continued. So monsoon almost came here in the western region as well as in the South Peninsula by about June 10 and then it was a monsoon period where the demand of the Agri sector was down. So that is how it was there, but demand constraint was not there. It was only the supply constraint. I think now we are stabilizing on more or less the monsoon level. So have I answered you on the volumes?

Maulik Patel: Sir, just one more thing on that side as you mentioned that the restriction on this lot of logistics and also on the operational front. Our situation could have been different if we have on a more geographically spread out the plants because what we have in three plants and if I look at it from the Pune, I think all in the vicinity of from 600 kilometers of radius, right? If you would have on a different plan in the other part of the country, the situation could have been different?

Sanjay S. Math: I think it is more to metro-related things rather than on the geography. Even in Maharashtra also, we have Ratnagiri. Ratnagiri is more or less a rural area. So we had better operation in Ratnagiri compared to what we had in Pune. Pune being a metro city and there was a lockdown was severe, and the number of cases also were higher. So there was restriction and there the operations took some beating there whereas we have also a location at Baroda, which is again away from Baroda City, about 40 kilometers, which is also a rural area and that has taken better operation there. So it is more like urban to rural area. It is not the geographical spread. Many people who are got the spread in rural area, I think they have done better. In terms of volumes, possibly they could operate it better and earlier.

Maulik Patel: Sir, you mentioned about June was 20% decline. How could have been July approximately, if you can give some indication?

Sanjay S. Math: July now, once the monsoon has started, I think the demand also gets adjusted to the monsoon level. So we now have no constraint on the supply side. So all these constraints, which we had during the COVID lockdown, now the unlocking has also been done and there is demand also has stabilized to the level of monsoon level, both in Agri sector as well as in real estate sector. So we are able to manage with supply demand in normal way of monsoon. So today, I would not call this as a COVID effect. It is the normal monsoon effect, which is now operating.

Maulik Patel: Have you seen, because as you mentioned, that Agri demand was initially very strong and the construction activity started late in terms because of the migrant labor and the road permission. Have you seen that the plumbing demand or the construction pipe demand has recovered to the normal or it is still significantly below the normal level?

Sanjay S. Math: As I told you earlier also that agricultural sector was exempted from the lockdown whereas the construction was not an essential business and that is why the lockdown did not allow any construction activity initially. While the unlocking is done, so it is done after only, say, June or something that the construction activity started and now the migrant workers are also returning back. We see good traction in non-Agri sector also in our Pipe segment and from June onwards, we have seen quite a good demand coming back whereas whether that will be really coming back to the original pre-COVID level is a question mark. Presently, if you see almost all the real estate agencies as well as other people are talking about is that there is a contraction in real estate; contraction in real estate and it will take some time. But I think we are already seeing that the demand has come back to about 70% level pre COVID. It will definitely come back sometime in the next quarter to about 85% to 90%. I think by year-end, definitely, it will be on almost pre-COVID level. Although many agencies are talking about that it can go beyond that, and it will go into next year. Maybe second half of next year will be the real recovery. I think these are predictions and things like this. Again, it depends upon how you look at COVID situation. If the COVID situation aggravates, our local lockdowns are increasing. And then the overall economic recovery is disturbed, and then possibly, you cannot say anything. But at the present level, as we see that Agri demand is growing, and it will be good in next quarter also and maybe better in further whereas real estate will be recovering slowly but steadily and maybe recovering to the level of pre-COVID level by end of the year.

Maulik Patel: Sir, and the second question on the margin side, if you can help?

Sanjay S. Math: I think on the margin side, Whabi Ji, can you just answer that?

Anil V. Whabi: Maulik, you know that the prices dropped by Rs.13.5 in PVC resin. But when we started the supplies after April, since the demand was good, the entire price reduction was not passed on. So the better realization is because the prices realizations were better. So that is the primary reason for a better margin in this quarter.

Maulik Patel: Sir, can I just give me the CPVC volume and revenue?

Anil V. Whabi: PVC total volume was…

Maulik Patel: No, Sir. CPVC, I am talking about CPVC, Sir.

Anil V. Whabi: Okay. CPVC volume was 882 tons for the quarter. Value was Rs.29 Crores.

Moderator: Thank you. We will take our next question from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Thank you for the opportunity. Sir, my first question is again on the high EBIT margins in Pipes because this has been the highest level that we have seen in pipes. I understand that you said that the entire price drop in PVC resin was not passed on, which is why the higher realization. But going forward, do you see this as a sustainable level?

Anil V. Whabi: Sonali, this we could do because of the pent-up demand. Now as we have progressed into this quarter, obviously, there is a subdued demand now because of the monsoon. So the normal level of discounts will usher in. So I am not sure whether, though we would like this to be sustained, but how far we are able to do that, time will tell.

Sonali Salgaonkar: Understand. Sir, my second question is with respect to the demand scenario. Now we understand that on a quarter-to-quarter basis, monsoon, demand will be lower than Q1. But as compared to last year, for example, the July demand as compared to last year is it on similar levels? Or is it still a decline?

Sanjay S. Math: No, we are almost on the same level as last year. August and September also, we see it will be almost there. So whatever is a fall in Agri sector is basically getting filled up with the non-Agri sector now. So non-Agri sector is picking up. We see traction in that. We will be definitely be leveling ourselves with the last year operation in Q2.

Sonali Salgaonkar: Understand. Sir, my third question is with respect to spreads in Q1, the average spread, what was it on a Y-o-Y basis and what is it currently?

Anil V. Whabi: You are talking about PVC/EDC spread?

Sonali Salgaonkar: Yes.

Anil V. Whabi: So if we look at PVC prices, they were at $740 in this Q1 as against $883 last year for PVC. EDC was at $193 as against $393 last year and VCM was at $516 as against $718 last year.

Sonali Salgaonkar: What is this currently?

Anil V. Whabi: This year also. So EDC price in market is $193, but that benefit will come to us only after Q2 when we start our jetty operations. So until then the prices persist, then we get this prices. But otherwise, our EDC, which has come pre March was at $330, which was the price ruling in Q3.

Sonali Salgaonkar: Understand. Sir, and on the CPVC volumes revenue you have given for this quarter, can we have the year-on-year numbers, please?

Anil V. Whabi: Last year in Q1, it was 2,321 tons.

Sonali Salgaonkar: The revenue?

Anil V. Whabi: Revenue was Rs.66 Crores.

Sonali Salgaonkar: Fair enough. Lastly, on the capex, last time, last quarter, we mentioned that we are going slow on the capex, given the uncertain situation. But now that we had a good pickup towards the end of Q1, and Q2 also, we are seeing leveling the similar kind of demand of last year. Do we envisage putting in some amount of investment in capex in the second half of the year?

Anil V. Whabi: See, we discussed last time also the planned capex for the year was about Rs.100 Crores. And we have slowed down. But yes, there will be capex, but this pace of spending will continue for some time until this uncertainty persists.

Sonali Salgaonkar: Thank you. That is it from my side.

Moderator: Thank you. Our next question is from the line of Arafat Saiyed from Reliance Securities. Please go ahead.

Arafat Saiyed: Sir, congrats on a really better numbers in a challenging time. My first question is on channel inventory. What kind of inventory is there with the distributor, Sir? Can you elaborate on that?

Sanjay S. Math: I think the inventory is now almost salvaged out. We had a lot of inventory at the beginning of the COVID period and we had a resin as well as finished goods and same thing with the channels also. But that has been gone now. I think we are empty on resin as well as on our finished goods. Now our normal inventory as we see for the demand level, we are maintaining that. So even at the channel level also, it is like that.

Arafat Saiyed: Sir, my second question is, how you look as to FY2021? Sir, I agree that FY2021, 2Q is almost gone with, let us say, not much of demand coming in. So how do you look FY2021, second half, Sir?

Sanjay S. Math: Second half will be normal as last year. On the inventory front, we are carrying inventory only on raw materials like EDC as well as ethylene, and that was bought in the early part of the COVID. So it was somewhere around February, March, we had taken this inventory and that discontinued. So that inventory is now being serviced for the present PVC operation. The recovery in the PVC prices has also seen that, that inventory does not give us a real headache. So basically, what we see is that PVC prices have come back, and they are now at the level of $860 whereas in the early part of the pre COVID, they were about $890. But it is almost a full recovery that is coming back and maybe in another week or 10 days time, maybe it will really be equal to what we were at pre COVID. So particularly that inventory of raw materials will not be a concern for us at present.

Arafat Saiyed: Thank you. That is it from my side. Thank you.

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

Utkarsh Nopany: Good morning Sir. Sir, I have two questions on Pipe segment margin. First, Sir, if we see our pipe segment EBITDA run rate has been around Rs.11 per kg over the past three quarters in comparison to our earlier run rate of around Rs.8 to Rs.9 per kg. So just wanted to know, can we expect to maintain this high run rate of Rs.11 per kg on an annualized basis in the near future? A connecting question to this is like as our Pipe margin is still much lower than our major peers due to our high dependence on Agri pipe and given our strong focus on increasing non-Agri pipe revenue, what kind of a realistic pipe EBITDA run rate, we are looking at, say, over the next three-year period, say, by FY2023, Sir?

Sanjay S. Math: Okay. Let me tell you about the, first of all, the margins. I think the demand was good, as Mr. Whabi also told you that the margins were higher because of the higher realization. So whatever PVC prices have dropped, but we have not dropped the pipe prices. So there was a differential that we maintained between PVC and PVC pipes. So that was the realization that we got, and that is the higher-margin for PVC pipes. So that answers your first question about the margins.

Utkarsh Nopany: Sir. I have a point to add, like we are not only talking about this quarterly performance, but if we see on the last two quarter performance, that is December and March quarter, there also, we have clocked pretty good EBITDA run rate. So what is the reason that our run rate has improved so much from Rs.8 to Rs.9 to around Rs.11 run rate?

Sanjay S. Math: Whabi Ji, can you answer this?

Anil V. Whabi: Yes. Utkarsh, this is obviously because of a little better realization. As we have progressed over the quarters, if you see, the realizations have improved. So with that, it is because of that, mainly that in past three quarters, we have seen good per kg margins.

Utkarsh Nopany: Sir, since the realization continued to remain pretty good, so are we expecting to maintain this run rate in the near future?

Anil V. Whabi: As I said, we would like to, and it all depends on the market dynamics. If we get the volumes and if the demand pull is there, definitely, we should be able to maintain that.

Utkarsh Nopany: Sir, like if you can give a sense that what kind of a run rate would be, say, over the next three years period given we are focusing to increase our non-Agri pipe revenue?

Sanjay S. Math: We talked about the product distribution between Agri and non-Agri. Traditionally we are about 70% on Agri and 30% on non-agri. We would like to change this product split, and we will be focusing on non-Agri aggressively. There is a possibility that agri will be growing only about 6% to 7% or 8%, whereas the non-Agri growth is more. Unfortunately, because of COVID, possibly, the real estate sector is not doing well compared to Agri sector and so that recovery coming back into real estate sector may be delayed. Now that may also affect our Agri, non-Agri split for some time, maybe by a year or so. But if you are talking about long term, about three years, definitely, we are trying to aggressively match ourselves with the others and getting into non-Agri sector more aggressively. So we are adding our SKUs of non-Agri sector, more and more. And we are definitely looking at that said to change between Agri to non-Agri.

Utkarsh Nopany: Sir, can you give some kind of a range, a realistic range you give, which we are targeting at the EBITDA per kg run rate, say, after three years or five years period, Sir?

Sanjay S. Math: I think within three years, we should be around 40% on non-Agri, 40 plus.

Utkarsh Nopany: Thank you.

Moderator: Thank you. We will take our next question from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Good morning. Thanks a lot for taking the questions. Sir, as you are already there as key players in the Agri Pipe segment this is the place maybe where we have seen higher amount of smaller players being present. So just wanted to understand your view, are you seeing some amount of consolidation happening in the industry? Are you seeing very smaller players facing pressure, where you were able to gain market share? Can you throw some light on this particular aspect?

Sanjay S. Math: There is always an organized sector, which is somewhere around 30% to 35% compared to the organized sector. The condition of unorganized sector during the COVID period definitely will be much worse than the organized sector and definitely, there will be some consolidation happening. To what extent it will happen, we cannot say, but we also look at it that the overall demand year-on-year of PVC pipes, if it is more or less like last year. If this realignment of unorganized to organized is happening, I think that will benefit us to a larger extent. To what extent is there, but we look at it this very, very with excitement and we hope that there will be some shifting of demand coming from unorganized to organized.

Sneha Talreja: Right. But is your channel suggesting some of these things actually happening on ground? And maybe if at all, you can highlight some prominent names, which you are actually seeing getting out or facing severe pressure?

Sanjay S. Math: Yes. Particularly, when we saw the demand for Agri in last two months, like May and June, I think we also realized that, yes, there is definitely some shift coming from unorganized sector. Today, we are now looking at non-Agri sector, although the real estate sector is not doing so well, non-Agri sector is growing. So there is a demand coming at retail and trade level, which is, again, more or less coming from some unorganized sector, not able to start yet. This attraction that is there in both these sectors now and we have no definite information, but at the same time, our dealers are saying that the demands are moving in both these segments.

Sneha Talreja: Thank you. We will get back in the queue.

Moderator: Thank you. We will take our next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Thanks for the opportunity. Sir, my first question is, you emphasized that non-Agri will be 40% for us in three years. Sir, what are the steps we are taking that we reach this goal in three years, either from SKUs or either from distribution anything specific that you would like to highlight, please?

Sanjay S. Math: See, normally, the pipe market is distributed between Agri and non-Agri. Agri is about 55%, which is about irrigation plus Borewell and Column and Casing whereas in non-Agri, there are three major segments. One is the sewerage; the other one is drinking water and plumbing; and CPVC. So the three sectors, which are there, SWR and plumbing and CPVC all the three sectors, we are focusing separately. We are now going into different markets. Geographically, also our spread is going, we are looking at cities separately. We are also looking at some channels which are there, who will be specifically and exclusively for non-Agri and focusing on increasing the basket by increasing the SKUs. So as we increase the SKUs, I think there is a demand, which we will be able to service. So we are now trying to look at not only the market expansion in non-Agri, but at the same time capturing some market share from the other players.

Ritesh Shah: Right. Sir, this is very encouraging. Sir, can you emphasize more on the marketing strategy that we have over here on the non-Agri side, if you indicated we are looking at specific channels and cities differently. This is more like, are we looking to appoint distributors, specifically to the non-Agri segment. How should we read into this?

Sanjay S. Math: One way, we are now looking at is this that normally, we are a cash and carry company, and we operate it on that marketing strategy. In non-Agri, we are also looking at and giving credits to about a month's credit we are giving. So this is one change that we have done on the pricing and also looking at exclusively setting up sales force.

Ritesh Shah: The number of SKUs on the Agri and non-Agri side, basically how should one dissect it, like how much was it last year and how much is it right now FY2020 end versus FY2019 end?

Anil V. Whabi: I do not have such exact numbers right now.

Ritesh Shah: Okay. No problem, Sir. And Sir, can you help us with the ethylene pricing for the quarter and what it was last year? You indicated for PVC, EDC, VCM, specifically for ethylene as well?

Anil V. Whabi: Ethylene in the first quarter was $537. Last year, it was $858.

Ritesh Shah: $858. Sir, how much was the production via ethylene?

Anil V. Whabi: If we look at the current prices ethylene prices from low of $537 have gone up at present, it is $715.

Ritesh Shah: Sir, how much was the average cost for ethylene and VCM? You indicated for EDC, it was around $330, how much would that be for VCM and ethylene?

Anil V. Whabi: VCM and ethylene, I do not have it right now. If you are saying that the procurement costs for us.

Sanjay S. Math: Ethylene was somewhere around $800 when we bought it last time. So our average cost of ethylene was $800. On EDC, we were around $300 on average cost. So whatever inventory we are carrying at present is at that price whereas at that time, the PVC prices were somewhere around $890 and today, we are back to about $860, as I said last time, okay? Now this, particularly ethylene and EDC prices when they went down in Q1, this was more of a fictitious number because there was no trade on this. We have not even bought anything, not a single ton of ethylene has come, not a single ton of EDC has come at that price. Not necessarily, it has also happened that the international trade also was so restricted that possibly there is hardly anyone who has got that. There was any trade that was possible within the lockdown. Lockdowns were there all across. So it was not that big volume of trade was happening at the prices that were recorded by the Platts or by ICIS or anything. So those are more like fictitious numbers. Really, when the actual trade started and the business started in India, the prices in India started moving up. So when the business was there, actually, the prices came back. So, this spread, what we are talking about are numbers. They are not actual.

Ritesh Shah: Correct. Correct. Sir, one bookkeeping question. How much was the production by PVC EDC and PVC VCM road for this quarter?

Anil V. Whabi: See, this quarter production itself was very low. If you have noticed, while we sold about 45000 tons of PVC resin, production was only 13700 tons.

Ritesh Shah: A bulk of it will be PVC EDC, PVC VCM, Sir?

Anil V. Whabi: Yes, yes, bulk of it was PVC EDC, yes because VCM was in short supply, there was some issue in VCM supplies at that point of time. So bulk was from EDC, yes.

Sanjay S. Math: Anyway, we do not have a very big storage of VCM. It is only 8,000 tons so you cannot store VCM like in any other tanks. It is a gas. So it is not easy to store.

Ritesh Shah: Correct, correct. Sir, sorry, I missed you on my prior question, but basically on the marketing side, you did emphasize upon setting up a different channel. Sir, are we incentivizing the dealers more or are we giving a larger variable component to our marketing guys to do more on the non-Agri side? Is this some change in strategy because it is quite heartening to see this number of 40% in three years. And specifically, we have done well on the CPVC side?

Sanjay S. Math: I think we do not discuss our strategy on marketing so easily. But we will have our own ways of handling this, how we handle them differently than the normal Agri sector.

Ritesh Shah: Thank you.

Moderator: Thank you. Next question is from the line of Aditya Nahar from Alpna Enterprises. Please go ahead.

Aditya Nahar: Good morning. Thank you for taking my question. Just to clarify something, Sir. Today, we offer credit period only for the Lubrizol product. So are you saying in the next few years, you will start offering credit to your distributors on non-Agri, non-Lubrizol products as well?

Sanjay S. Math: Whabi Ji, you have answer on that?

Anil V. Whabi: We have, since last year we are offering a credit of 30 days on all non-Agri products. Initially, we did start with CPVC only, but then we extended to all non-Agri products.

Aditya Nahar: All right. So this has been happening from last year itself, right?

Anil V. Whabi: Yes.

Aditya Nahar: Just wanted to confirm. Great. Thank you so much.

Moderator: Thank you. Our next question is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: Thanks for the opportunity. Sir, actually, I have got an opportunity to speak to a few large distributors of Agri Pipes. They have highlighted that they used to stock up inventory from September, October for the next monsoon season. But due to high volatility in PVC prices, they have reduced this buying to January, February. Are you seeing such a trend?

Sanjay S. Math: I did not get your question. What are you saying is they will build up inventory during monsoon or after monsoon? What is this?

Shrenik Bachhawat: So basically, during the peak month season, due to high demand levels, it was tough for the companies to service the distributors. So they used to build inventory from October for the next monsoon season. But due to the PVC volatility, they have started bank from Jan-Feb versus October. Are you seeing this trend in the industry?

Sanjay S. Math: There is unpredictability in monsoon that it starts early or it ends late. Last year, monsoon got extended. I think it went up to almost November. That is why there was moisture in the soil, and then there was no demand coming up for the pipes. People have delayed their decision of buying. Now there was no demand coming up even in the winter. See normally for the Rabi crop when it starts in the winter period that is the time when the demand really comes up and you see Agri Pipe growing. But this time, particularly in 2019-2020, this last winter, there was nothing like that and so it got delayed. And there was a good Rabi crop because the monsoon got delayed and there was moisture in the soil. So Rabi crop was really bountiful, and that made the demand coming up in April and May. Whether this will happen again this year, it is a question mark, which nobody can answer. Whether the monsoon will be similar or it will be a normal monsoon, so it will withdraw in a normal time or it will get extended, is a question mark. So these are some of the things, which are there. We see that the monsoon will be normal and like normal time, winter crop also will be serviced by the Agri pipe sector. So this is what we look for, and we hope for.

Shrenik Bachhawat: Sir, like market leaders like us in Agri Pipes I believe, the life of the pipes would easily be about seven, eight years and because of the high-quality of our pipes. So why is it that Agri Pipe sees a larger share in replacement demand? Like why does the replacement demand come every year? That was the one thing I was trying to understand.

Sanjay S. Math: I think if you look at the whole sector is that the total cultivated land is about 200 million hectares. Out of that, only 35%, 40% only is irrigated. So around 75 million hectares is irrigated. The irrigable land is defined by the government of India is something like 140 million hectares out of 200 million hectares so most of the land remaining, which is rain fed, which can be getting converted into irrigable land. Now this is a market size that can happen. So even though this is a durable, it is a consumer durable, and there is a replacement demand, maybe a little lower. There is a fresh demand that is happening and there are states, which, we are strong, are the rain-shadow areas, which are draught prone areas where groundwater is the one that feeds the irrigation and so we see that the demand will continue to operate for next quite a number of years and it is not related with only replacement.

Shrenik Bachhawat: Thank you.

Moderator: Thank you. Our next question is from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: If I heard you correctly, EDC price is around $195, currently and we are now processing inventory at around $300. So going forward, margin should improve in subsequent quarters because EDC prices are at such low?

Anil V. Whabi: No. EDC prices were at $193 during Q1. As of today, they have risen to $270 already.

Vipul Shah: So in tandem with PVC, it has also moved up?

Anil V. Whabi: Yes.

Vipul Shah: Sir, can you comment anything about market share gain or loss in CPVC segment?

Sanjay S. Math: In CPVC, as it is related with real estate, I think it has taken a beating like all other, non-Agri sector. But it is coming back. I think we will be able to cover back on CPVC. Already, we see the traction coming up.

Vipul Shah: Thank you. All the best.

Moderator: Thank you. Our next question is from Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Good morning. Thanks for the opportunity. Sir, PVC is an imported commodity for the country as the installed capacity and the demand, there is a fair gap so Sir, looking into the thing about this Atmanirbhar Bharat, part story playing out going forward what kind of trade capacities can people like you can be looking up going forward to take advantage of anything to bridge this gap or is it correct to be very proactive as you have been over a period of time?

Sanjay S. Math: I think this is a very wider question. Why the demand is growing up and Indian domestic production has stagnated at $1.4 million whereas the demand is about now and $3 million and $3.4 million. So $2 million is coming as import. I think this question is it is a little bigger area section in the sense that we have limited feedstocks, particularly ethylene. Now ethylene feedstock, if it has to be there, it has to come from the cracker only, whether it is an ethylene cracker or a naphtha cracker or any other gas cracker. That way, I think even those feedstocks are not available here. The only people who can do this are the refineries where oil to chemical type of companies can go. A medium-sized company looking for an ethylene cracking plant is just not possible. It is a huge investment and no one builds an EDC-based or ethylene direct chlorination-based PVC plant for a cracker dependent only on EDC. So there will be a lot of other ethylene derivatives, which are there and most of the time, it is the polythene and glycol, which takes out ethylene to build a cracker configuration and EDC is the last one to be developed. Possibly, this type of question has to be solved either by PCPIR type of solutions coming from the government where ethylene cracker becomes a mother plant and the derivatives like EDC and other PVC type of things are given to the private partnerships or the other players in a common SEZ. I think in most of the places like Gulf Coast to US or in Germany or in Belgium, other places where ethylene is a common available commodity in a pipeline and so there are producers of ethylene in putting in the pipeline and there are consumers of ethylene who are taking out from there. Now such kinds of arrangements are not there. So I think going ahead, medium-sized companies dependent on imported ethylene and building up an EDC is a difficult proposition. EDC, if it is coming, it has to come from outside only. And that is one of the problems that is there. Secondly, PVC to EDC, although there is some protection given in the custom duty, which is only 10% whereas there are FTAs type of countries from where PVC is coming directly without any duty. So that also puts up a pressure, and there is no protection that is there for a domestic player. Now there are new technologies like in China, people are doing carbide based. They are not based on petrochemical-based EDC. Now whether that is a possibility in India, I think nobody has really looked at that because that technology is still not there, and it is also not very ecologically friendly technology. So that is one of the reasons that holds back us from going into carbide-based PVC. But these are some of the things that are there. These dimensions are a little more wider. This is being discussed at length with the government at various forums whether it is DCPC or any other forums also. There are some of the things that we are looking at. There are many chemicals, many petrochemicals, which are being imported. It is not only VCM, it is not only PVC, it is not only EDC. But many others are there and I think to make India Atmanirbhar is a wider planning that is required on petrochemicals.

Saket Kapoor: Sir, on the calcium carbide part, domestic players, I think, if I am not wrong, DCM Shriram are also from the Chlor-Alkali chain, are producing PVC, If I am not wrong?

Sanjay S. Math: I think when PVC started in India, it was Calico and DCM Shriram, both were on carbide. But later on, it became like it is petroethylene that we went on and that is all coastal. In bioethylene, whether people can go and do it. Bioethylene has never been so attractive, particularly, given the oil prices of $40, I think, bioethylene is not at all lucrative at all to look at this. So any time when oil is cheap, I think, petroethylene versus bioethylene or even carbide, I think these are some of the areas one has to look at very carefully. If oil really drops like this at $40 or below, I think, all other technologies also may not be very attractive.

Saket Kapoor: Sir very short point. Sir, firstly, the price trend, could you repeat, how a PVC price behaved post June, in the month of July and August?

Sanjay S. Math: I think PVC prices, as we have from the Platts. In January, they were around $880 to $890. Then during the COVID period from March 2019 onwards, it went down to $850, $840, $810, April 2, $760, April 16, $660, and they maintained around $660 till about May 14. Then started moving up $735 and then by June 4, $745, June 11, $845, and then it is maintaining $845 for a long time. In July, by end of July, it is $860. So this is how the prices have moved up. So as the demand in India is growing, the prices have gone up.

Saket Kapoor: Okay. We have come to pre-COVID levels, almost $880?

Sanjay S. Math: Almost like 95% of pre-COVID level, $860 and $890.

Saket Kapoor: August is hovering in that band only?

Sanjay S. Math: In between, if there is no trade, basically, at that prices the imports are also not high then possibly not there, yes.

Saket Kapoor: Sir, a very small one about bioethylene part, what were you trying to explain, I missed that connection, which you were talking about, bioethylene. What is the raw material source? And what exactly are you trying to say?

Sanjay S. Math: Bioethylene is made from ethanol. So ethanol is dehydrated, and you can convert it to ethylene. I think the LNG plant at Vizag was on bioethylene earlier. This was Hindustan Polymer, which were making polystyrene. Secondly there was also bioethylene plant, which is there for making glycol. So the India Glycol is operating bioethylene and making the ethylene glycol, MEG. There are also people who are doing bio-based VAM. But they were going from acetic acid route, but bioethylene is one of the alternatives for petroethylene. I think if you know there is a glycol plant, which was being operated in Pune District at Baramati by SM Glycol, which is closed down, but it was bioethylene glycol.

Saket Kapoor: Sir, why are you taking into consideration that it is not feasible? When availability of ethanol and all are?

Sanjay S. Math: It is not only the ethanol availability, but it is also that it is costly.

Saket Kapoor: Okay. So the parity has to be maintained with the approved feedstock?

Sanjay S. Math: Exactly. Ethanol is priced by the market; it is not with source of or the technology that you use.

Saket Kapoor: Thank you for the elaborative discussion and for the answers. I am obliged. Thank you Sir.

Moderator: Thank you. Our next question is from the line of Vishal Jajoo from Tata Investments. Please go ahead.

Vishal Jajoo: Sir, my question was what we observed in, about two, three years ago, that was post demonetization post six months, there was GST. And in that year, we focused significantly on the volume growth and the outcome was exceedingly well, that financial year 2017-2018 we saw 20% volume growth in Pipes whereas the sector did not grow by that much, meaning we would have gained the market share and the scenario is more or less same today, wherein cash flows are tight, competition is on weak footing and the Agri market is supporting. I mean, the rural economy or overall agriculture environment is supporting us. We have also given trade terms more favorable and the rebates and incentives have been more lucrative for the dealers post COVID? And being the cash and carry model and good balance sheet and the brand, we are on the right footing. And unfortunately, for the last three quarters, we have underperformed as compared to our peers on the volume front. So do you think that if we look at that way, can we replicate, to some extent, what we did in FY2018, in FY2021?

Sanjay S. Math: I think, as I said, this is not the normal time. Recovery on both sectors, we are quite excited on the Agri front, but we are not so sure about the non-Agri front, depending on the real estate recovery. So this year, we hope to maintain what we did last year. I do not see there is a very great volume that can come beyond what we had last year.

Vishal Jajoo: You mean to say the shortfall that we had in Q1, there is a brilliant chance that we may recuperate that number going forward?

Sanjay S. Math: As I said, what we have lost in the lockdown period, Agri sector will recover, and it may even grow further. But whether that will cover up the loss in the real estate sector. As real estate sector is still coming out of COVID, it will take longer time. So, recovery is a little delayed. Now whether that will fill up also is a question mark. But looking at the present condition, our growth on Agri sector will cover up the volumes to some extent on the real estate and we hope that we will be at least maintaining last year's numbers.

Vishal Jajoo: We have seen significant reduction in the expenses side. So are any of these cost reduction measures being implemented, which could turn out to be permanent in nature?

Sanjay S. Math: There could be some of them, which are there, which are temporary. There are some of the things which we are looking at is long-term contracts on supplies, on materials. We are also looking at how we can reduce our material efficiency, our energy efficiency, our utility efficiency as well as our fixed cost. So we are trying to redefine our breakeven point to some extent, how we can lower it whether we can do that on a longer term, at least for temporary, we can do something. But on a longer term, how we can do that, this is how we are debating and we are focusing ourselves on that.

Vishal Jajoo: Thank you Sir.

Moderator: Thank you. Our next question is from the line of Ravi Mehta from Deep Financials. Please go ahead.

Ravi Mehta: Thanks for the opportunity. One just a quick question when you expect the volumes to be maintained probably going ahead. So as a year when we look at it, we should expect probably the next nine months volume to be same, given the drop in Q1? Or do you expect the entire year volume to be same as FY2020, expecting some growth in the next three quarters? How should we look at it?

Sanjay S. Math: I think volumes, as we said, Agri volume should grow over the last year. So the loss we have made in Agri, I think we will cover up in the remaining period. The real estate side or the non-Agri sector, we were already were not much. We are seeing some traction coming up. And we hope that we will maintain that volume also. So we will be more or less on the same line of numbers for the year-end.

Ravi Mehta: Okay. On an annual basis, could be a flat volume.

Sanjay S. Math: More, I think even that will be a very great achievement. Maintaining flat volume by year-end.

Ravi Mehta: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Ritesh Shah for closing comments. Over to you, Sir!

Ritesh Shah: Thanks, Inba. Whabi sir, Math Sir, any closing remarks from your side, please?

Sanjay S. Math: Whatever happened because of pandemic, we made really good efforts to come back. We had a lot of hurdles as well as some kind of setbacks, while we were operating. We are still operating on a very closely monitored level. Manpower is being operated with the all COVID measures that we are doing. Going ahead, the only concern that we have is as COVID is spreading all across and it is spreading even in the rural area now, and the numbers are growing, we are afraid something should not go bad although all the care that we are taking should not allow it to happen, but nobody knows how COVID enters and if it happens like this, that is one of the setbacks that we will have. So this is one concern that we are always maintaining that God forbidden we will be not seeing any COVID in our plant, in our employees and affecting our operation. If that does not happen, I think the other sector, while unlocking and everything is quite exciting for us, and we are maintaining our high hopes that monsoon is good, agricultural sector will be definitely helping us, agro economy growing will help us to cover up whatever losses we make on real estate sector. I think with this, we hope that this year, again, will be almost flat, but it is definitely, given the situation, it is definitely a good show that we will have. I think this is my comment on this for conclusion. Whabi, do you have anything more?

Anil V. Whabi: Nothing further, Sir.

Ritesh Shah: Thank you. Thank you so much, Sir, for the conference call. Thank you all the participants for joining in. Thank you, so much.

Anil V. Whabi: Thank you.

Sanjay S. Math: Thank you.

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