



“Finolex Industries Limited Q3 FY2017
Earnings Conference Call”

February 06, 2017



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Moderator: Ladies and gentlemen good day and welcome to the Finolex Industries Limited Q3 FY2017 Earnings Conference Call. 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 the Mr. Sanidhya Jain from S-Ancial Global Solutions. Thank you and over to you, Sir!

Sanidhya Jain: Thank you Janis. Good morning everybody and thank you for joining the call. We have with us on the call Mr. Prakash P. Chhabria – Executive Chairman, Mr. S.S Math – Managing Director and Mr. Anil Whabi – Director Finance. May I now request Mr. Chhabria to take us through the initial remarks and financial highlights subsequent to which we will have a Q&A session. Over to you, Sir!

Prakash P. Chhabria: Thank you. Good morning, everyone. I welcome you to Finolex Industries Q3 FY2017 Investor’s Conference Call and thank you for being online.

For Q3 FY2017 sales was up by about 6% at Rs.662 Crores against Rs.625 Crores during Q3 FY2016. The volume of pipes and fittings was low by 3.5% due to the effect of demonetization. In spite of this, the EBITDA margin at 19.58% was higher than Q3 FY2016 due to continuing higher spread in PVC segment. Finance cost was down from Rs.8 Crores in Q32016 to Rs.5.93 Crores in Q3 FY2017.

During the quarter we have repaid the long-term debt of Rs.100 Crores. For the nine months FY2017, sales were up 3.7% at Rs.1963 Crores against Rs.1892 Crores during nine months FY2016. The volumes of pipes and fittings were up by 3%. EBITDA margin was at 19.15% higher than the previous year due to better spreads in PVC segment.

Though due to demonetization impact the growth anticipated for the current year will not happen, but the long-term impact will definitely be good. The budget for the year 2017-2018 has made allocations to agriculture, housing and infrastructure sectors, which will benefit the pipes and fitting industry, the gist of which is as below.

1) long-term irrigation fund set up in NABARD, an additional corpus of Rs. 20,000 Crores. 2) target for agri credit fixed at Rs.10 lakh Crores this year. 3) allocation for rural agri and allied industry at Rs.1.87 lakh Crores up 24% year-on-year. 4) crop insurance coverage to increase to 50% by FY2019. 5) Rs.5000 Crores worth dedicated micro-irrigation fund to be set up by NABARD. 6) steps to make sure farmers get better prices for harvest. 7) affordable housing to be given infra status. 8) sanitation coverage in rural areas given 60% versus 42% earlier. 9) proposal

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to finish 1 Crores houses by 2019 for those living in kutchha houses. 10) boost in housing due to refinancing by National Housing Bank. 11) Swachh Bharat Mission up by 18%.

These steps taken by the government coupled with GST and demonetization will help the organised players to improve the market share. With these few words, I would like to leave the floor open for questions.

Moderator: Thank you. We will now begin with the question-and-answer session. We take the first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thank you for the opportunity and congratulation on results. My question is regarding agri-based demand. Sir, can you throw some light as to any progress on various tenders by different governments in the area of region of operations for Finolex?

Prakash P. Chhabria: Right now the only sign where we are seeing some green shoots is in Gujarat and Gujarat as we have seen historically has been very aggressive when it comes to helping out the farmer community. So I think that is a very positive and a good sign, but again, we cannot put a date on when this will happen, but because of the green shoot, I think it will be very soon. So it is a good sign.

Anshuman Atri: How about Andhra, Telangana, and Maharashtra are you seeing any?

Prakash P. Chhabria: I feel they are still slow. In a way it is good, because if you get demand spurting up spread out, it is much better than everything coming at one time.

Anshuman Atri: Yes true. The other question is regarding the volumes, it has definitely been much better than the expectations or the December volumes. Sir, how have you seen it improving in January and how are the volumes going? What do you expect for the next year as a whole?

Prakash P. Chhabria: First four to six weeks after 8th November was very bad and then by end December, we saw a very slight improvement, but January on the other hand is much better than December end also, but it still does not mean that we are happy because we are still not back to what we would have done because this year the monsoon was very good, so after monsoon we were really happy and hoping that things will look very nice, but we all did not know that this would happen, so we were all taken aback but what we did was instantaneously cut back on our production thereby saving on the inventory carrying and having a full control on our cash and therefore if you would see on December 31, we were able to pay off our very last long-term debts. So after this we are totally what I call debt-free. Whatever money debt we will have on our books will be only for businesses.

Anshuman Atri: Thank you. Just a last question on the spreads; how do you see it going forward?

Prakash P. Chhabria: Spread for the third quarter was absolutely the best spread ever. Fourth quarter, there is a slight contraction, but I cannot give you, first of all we do not like giving long-term statements or even short-term statements, but seeing things temporarily there is a blip where there is a contraction, but I do not know how much more it will contract or will it go back to third quarter and you know what happens is when we see numbers or when we discuss numbers on the phone or in papers or anything, we choose a particular date and that is when we talk about but whereas in reality it is a bit different because we have purchased it in October, it got shifted in November, it came to us in December and we are going to use it in January or February, all of those things, so it is very dynamic. If I want to buy everything today and sell everything, then those numbers are absolutely correct, but that does not happen in real world.

Anshuman Atri: Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Praveen Sahay from Edelweiss. Please go ahead

Praveen Sahay: Just the first question on how much is the external volume sales for PVC resin?

Prakash P. Chhabria: 25,281.

Praveen Sahay: In the piping side, how much is the fitting volume?

Prakash P. Chhabria: 3314.

Praveen Sahay: Just on the PVC pipe side, if I look at this quarter, the realization if I just calculate it Sir it has gone up, so and even sequentially that has gone up, and whereas in the operating margin if I look at that has gone down actually, so can you elaborate more on that?

Prakash P. Chhabria: If you see the PVC prices have gone up much more than the pipe prices, and because of poor demand we were not able to pass on the full increase and that is why there is a contraction in that phase.

Praveen Sahay: How is the EDC price moving currently?

Prakash P. Chhabria: Very slightly going up, but we do not know whether it is going to last or whether it can correct and come down.

Praveen Sahay: In the last quarter, the EDC prices and the PVC resin prices have moved in the same direction, in the same quantum?

Prakash P. Chhabria: No, PVC I think moved faster than EDC. PVC prices move much faster.

- Praveen Sahay:** Because the spread I am looking at sequentially has gone down.
- Prakash P. Chhabria:** Like I mentioned earlier, third quarter spread was the best.
- Praveen Sahay:** Thank you. I will come in the queue for further questions.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir, two questions from my end. The first is the production cut, which we took has that been restored or...?
- Prakash P. Chhabria:** Not fully restored. Like I mentioned earlier it has become much better in December end and now January better than December also, but still not full.
- Dhaval Shah:** Okay and the second thing it has been three months since the demonetization and this pipe industry has a large chunk of unorganized guys, so can you tell us what changes are you seeing, any major changes are you seeing post demonetization from shift to unorganized to organized, but it is too early to conclude anything?
- Prakash P. Chhabria:** First of all I think it is too early, but whatever we see is, there are certain states, I would not say certain ties of companies, but there are certain states where many of these people have gotten like shutdown kind of, but the issue is there could be shutdown because of this demonetization effect, there could be shutdown because of poor demand, because of demonetization effect, which means if things start getting better will they restart again or not that we cannot say, you know what I mean. So the real effect of that would be when GST comes into play. GST would be the real, I think...
- Dhaval Shah:** So, by when do you expect to change your, take a major decision regarding expansion of capacity if any seeing a major boost because of demand, a) GST, b) all the new announcements made in the budget and plus the regular demand growth.
- Prakash P. Chhabria:** On 9th November we already started making plans for expansion because I feel that all these things that are happening now that is down and all are all temporary so now is the best time to grow.
- Dhaval Shah:** Correct.
- Prakash P. Chhabria:** So we have been working on aggressive expansion plan.
- Dhaval Shah:** And on the, since the price of raw material has gone up were we able to completely pass on or..

- Prakash P. Chhabria:** The earlier question which Praveen asked me that is what I said, we were not able to pass on the full price.
- Dhaval Shah:** Okay. Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Kashup Pujara from Axis Capital. Please go ahead.
- Kashup Pujara:** Hi, good morning and congratulation Prakash Ji for a good set of numbers. Sir just a couple of questions, firstly on the piping side while I understand demonetization definitely would have been an issue this quarter, but as we speak, do you expect things to start getting better from March?
- Prakash P. Chhabria:** Like I said firstly six weeks after demon and then end of December was better, then January is better than December, so now again we are in February slightly better than January already, but the problem is we are not back into full swing that is the issue, not better, it is getting better, but we want to get back into full swing.
- Kashup Pujara:** Sure, so hopefully, I mean because in agri case a lot of government orders also come out during March right, if I remember right?
- Prakash P. Chhabria:** Absolutely correct.
- Kashup Pujara:** So I just wondering that from March onwards we might have – the situation would have eased and with government orders also having coming out, there would be some sort of buoyancy in the market.
- Prakash P. Chhabria:** Correct. Definitely.
- Kashup Pujara:** Okay and if I look at your capital employed in December on the piping front that has gone up on a quarter-to-quarter basis, so do I attribute this largely due to inventory that we would be holding inventory due to demonetization, you would have anticipated growth, but you have had not been able to meet that target and that is what has resulted in higher capital employed?
- Prakash P. Chhabria:** That is correct.
- Kashup Pujara:** So in that case with the spreads being firm and prices moving upwards is it fair to assume that this quarter even though there might not be as much volume growth, but there would definitely be inventory gains?
- Prakash P. Chhabria:** These are all forward looking statements, I cannot tell this.

- Kashup Pujara:** I mean from an intuitiveness perspective I think considering the way the spreads have also been and the prices are firm, I think it is not an unfair statement to assume?
- Prakash P. Chhabria:** I know but now I cannot say much.
- Kashup Pujara:** Sure, fair enough. Lastly on the overall PVC market front is it, what is your expectation, because is it that the market is getting short on it, I mean in the sense it is getting to, supplies will be getting too tight, what is your sense?
- Prakash P. Chhabria:** Supply of PVC I think for this quarter is going to be tight in the market that is because of various reasons like shutdowns and things like that, imports not having coming in because of demon, so that is why I think first quarter this year, I mean last quarter of this year, prices have started firming up and will keep on firming up, this is what my guess is.
- Kashup Pujara:** Correct, which means that, you know, during your peak season, I mean when your season starts in the sense that once the normalcy begins, and your season is there, you will be able to see not only piping growth, but you will also be seeing firm PVC trend as well, so that would augur well for both sides of the business.
- Prakash P. Chhabria:** Mr. Kashup what you are saying sounds absolutely logical.
- Kashup Pujara:** Sure and Sir overall from our thought process of volume growth we have always said that a 12% to 15% kind of a volume growth is what sustainable for us and the endeavor of improving the fitting as a percentage of the mix, would you be able to share some thoughts on what your thoughts are on these two things.
- Prakash P. Chhabria:** Absolutely. We have now been focusing very hard on the fittings business and many a times, we have been slow, we have been laggards in different new products because we focus also on just volume growth, but now we have a brand new team, which focusses only on fittings. The job is only to see the manufacturing of the things, the new product launches, deliveries and X, Y, Z, many things, so I think the effect of that will start coming soon and we will see benefit on that.
- Kashup Pujara:** Fair and any view on, I mean, could you share some thoughts on how Finolex Plasson is progressing?
- Prakash P. Chhabria:** Finolex plasson is progressing, I think they are being good. They also had a demon effect, but otherwise they are going good. They were too focused on too much government business, this would be the wrong time to be in that, I think because they would have been affected very severely, so at the moment being very prudent, very conservative, I think they are doing good.
- Kashup Pujara:** Sure. Any numbers, you would like to share, is it possible...

- Prakash P. Chhabria:** I do not have the numbers yet.
- Kashup Pujara:** Lastly since the debt is any which way, long-term borrowings have gone out and we are going to be generating good amount of cash flows in the year ahead going forward, what would your thought process be, would you be, any which way you are at a very liberal payout of 50%, would you be increasing the payout, what are the thoughts?
- Prakash P. Chhabria:** I cannot say anything because we will have to wait for the board to meet in May.
- Kashup Pujara:** Okay. All the best, Prakash Ji.
- Moderator:** Thank you. Next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Hi Sir. Congratulation for great set of numbers. Sir first question is on the inventory buildup, so I think we have stocked nearly 215 Crores of inventory and previous quarter also the inventory number was quite large and Sir is it possible if you could please give a breakup of the finished goods in the resin inventory that we have in December.
- Prakash P. Chhabria:** Yes Sure. Most of our inventory about Rs.150 Crores has gone up because of resin as we pulled back on the production of pipes, so we had a buildup of inventory in PVC and the reason we do not push it off so much because we were anticipating as it seems to be right that the price will start moving up and now the prices have started going up in January. That was basic reason.
- Ritesh Shah:** And on the finished goods side?
- Prakash P. Chhabria:** Finished goods side, we had slight buildup in PVC pipes, but nothing major.
- Ritesh Shah:** Sir would that be around Rs.40, Rs.50 Crores?
- Prakash P. Chhabria:** About 40, 50, yes.
- Ritesh Shah:** Okay that helps. Sir secondly you indicated in the prior question that we were working aggressively on the capex plans, so Sir are we looking to upward revise our Rs.30 Crores per annum capex guidance incrementally how do we look at it, given the outlook was pretty strong.
- Prakash P. Chhabria:** For the year, yes you are right, it will go up, so our Rs.30 Crores could even inch up higher than Rs.50 Crores and this will be purely for capex and that too purely for PVC pipes and fittings.
- Ritesh Shah:** Sir can one assume 50,000 MT of incremental capacity addition for this year, full year?
- Prakash P. Chhabria:** Yes, possible.

- Ritesh Shah:** Okay and Sir how would this number look like for next year, FY2018, FY2019?
- Prakash P. Chhabria:** I think quite similar.
- Ritesh Shah:** So Sir basically what you are indicating is against your prior guidance of Rs.30 Crores per annum, can one expect Rs.50 Crores roughly runrate for this year and next year.
- Prakash P. Chhabria:** FY2017 and FY2018, yes.
- Ritesh Shah:** Okay that helps a lot and Sir again on the dividend policy is it that one will have to wait till May that is what you indicated.
- Prakash P. Chhabria:** That is correct Mr Shah.
- Ritesh Shah:** And Sir just last question if you may permit, Sir any update on the distribution strategy because earlier we had indicated to increasing the number of warehouses and then we had taken halt on the strategy, so how do we look at it at this juncture?
- Prakash P. Chhabria:** No, we have not taken a halt on the strategy as such, what we are doing is, just seeing whether we really need to go ahead and spend money in doing all these, because what we are finding with these three locations we are pretty well taken care of, so adding another fourth location unless it is going to really make a big impact, we might not do it.
- Ritesh Shah:** Okay. Thank you so much Sir. I will join back in the queue.
- Prakash P. Chhabria:** Wait and watch situation, it is not that we have taken a decision that we will not do anything, but it is just a wait and watch.
- Ritesh Shah:** Okay, that helps a lot Sir. Thank you and good luck.
- Moderator:** Thank you. We take your next question from the line of Rahul Soni from Baljit Securities. Please go ahead.
- Rahul Soni:** Thanks for taking my question. Sir I need to know what is the current cash in debt on books after this payment of Rs.100 Crores of long-term debt.
- Anil Whabi:** See we have paid all the long-term debt as Chairman mentioned, so right now we have only the buyer's credit which we use for funding our inventory, currently since inventory levels are high, the short-term debt also is about Rs.300 Crore plus on the books, but the cash in hand also is about Rs.170 Crores.

- Rahul Soni:** So since you have increased your capex target for next two, three years, so is there possibility of any fund raising plans?
- Prakash P. Chhabria:** No, capex has gone up by 20 Crores a year I do not think we need to raise funds just for Rs.20 Crores.
- Questionnaire:** Okay Sir. Thanks.
- Moderator:** Thank you. We will take the next question from the line of Khadija Mantry from Dalal & Brocha. Please go ahead.
- Khadija Mantry:** Good morning Sir. Can you please once again provide us breakup between PVC pipes and fittings in volume and absolute terms?
- Prakash P. Chhabria:** Just one second, PVC fittings is 3300 MT. PVC pipe is 37,600 MT and PVC resin external is 25,000 MT
- Khadija Mantry:** Okay Sir and in absolute terms, what is the breakup between PVC pipes and PVC fittings revenue?
- Prakash P. Chhabria:** PVC fitting is Rs.59 Crores, rounded off.
- Khadija Mantry:** Out of Rs.4400 the rest would be PVC pipes?
- Prakash P. Chhabria:** That is right.
- Khadija Mantry:** Okay and a while back it was mentioned by a caller that you are expecting some government orders from March. Can you please elaborate what are these orders and which dates are they coming from?
- Prakash P. Chhabria:** No, his question was that government orders are expected to flow out in Gujarat I said, it is not that we are getting those orders.
- Khadija Mantry:** Okay, but you mentioned about some schemes and allocation of funds, which are pro-agri during this...
- Prakash P. Chhabria:** Correct, because if you see in the recent budget, the government of India, the finance minister made special announcements which would very much benefit the agri sector and some of them which I mentioned was NABARD, some of them was Agricredit, things like crop insurance, dedicated micro-irrigation fund, so these things will help our businesses.

- Khadija Mantry:** Okay, but when are you expecting that will lead into considerable volume growth for Finolex?
- Prakash P. Chhabria:** Hopefully in the coming months.
- Khadija Mantry:** Okay Sir, that is all from my side.
- Moderator:** Thank you. We will take the next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak:** Good morning Sir. Most of my questions have been answered. Just one thing I wanted to know is there any plan in terms of any new location for the plant setup, because you already had mentioned that our eastern markets are doing good and we understand that southern markets, there are clearly mandatory things that manufacturing has to be within the state may be Andhra or Telangana. So are we looking at any of those states in terms of our location addition for the new plant?
- Prakash P. Chhabria:** We are already doing that, because what we do is we keep evaluating whether to setup a new plant or a new warehouse, because in a new warehouse the advantages it is only variable cost, in a new plant it is huge fixed cost and so the study is still on, not that we have not fixed up on any location yet, so we are not yet decided on this, so I cannot answer your question say yes, we have one of this, right now we are still looking.
- Kamlesh Kotak:** Any color about which of the geographies our sales was impacted and which states we had a better sales in this call?
- Prakash P. Chhabria:** All states were impacted.
- Kamlesh Kotak:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Chirag Satalvat from HDFC Mutual Fund. Please go ahead.
- Chirag Satalvat:** Good afternoon Sir. If you can give us volume for PVC resin and breakup for the two routes please?
- Prakash P. Chhabria:** Total PVC resin production was 83,000 tonne.
- Chirag Satalvat:** Breakup between the two Sir?
- Prakash P. Chhabria:** From EDC route it was 39000 tonne and VCM route it was 44000 tonne.

- Chirag Satalvat:** What was this compared to the previous year?
- Prakash P. Chhabria:** Compared in previous year, this was about 40,000 from EDC route and 27000 from VCM route.
- Chirag Satalvat:** Great Sir and my second question was there are some prices that you saw for PVC, EDC, Ethylene and VCM, this quarter average prices per you?
- Prakash P. Chhabria:** PVC was \$980.
- Chirag Satalvat:** And this is including or excluding duty Sir?
- Prakash P. Chhabria:** This is excluding and EDC was at about \$271, Ethylene \$982 and VCM at about \$795.
- Chirag Satalvat:** Great. Thank you very much Sir.
- Moderator:** Thank you. We will take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Dhruv Bhatia:** Sir, my question was you mentioned that the capex call this year would be and for next year would be increasing from Rs.30 Crores to Rs.50 Crores and what I understand was that you were increasing capacity by 30,000 tonnes per annum for the pipes business. Could you just to help us with what will be the expansion in terms of volumes this year and next year?
- Prakash P. Chhabria:** That is what it will be between 30,000 and 50,000 tonnes would be the additional capacity setup by end of this year.
- Dhruv Bhatia:** 50,000 each year?
- Prakash P. Chhabria:** Each year.
- Dhruv Bhatia:** Sir if you could just help us with since you have reduced your long-term debt, is there any plans of moving into some newer categories or new product lines. Are there any plans or strategy of that?
- Prakash P. Chhabria:** We are now focusing still on our pipes and fitting business, we are increasing the range in pipes, increasing the range in fittings, so that is why the increase in capex. So right now the focus is still on pipes and fittings.
- Dhruv Bhatia:** Thank you. We will take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

- Saket Kapoor:** Good noon Sir. Question about this inventory part, there is a huge buildup in this quarter. Everything is going to get diluted in the fourth quarter, there is no doubt about that. Unusual inventory buildup, which is there that, is going to get liquidated in this quarter. Traditionally Q4 - as traditionally being a very big quarter for the industry as a whole. So this time due to this demon effect plus or minus are we likely to see the same similarity in this quarter itself or this inventory will make short fall for whatever it has been lost due to demon?
- Prakash P. Chhabria:** I am hoping that this quarter will be better than last year that is all I can say, but I do not know whether it will catchup the loss of the third quarter. Loss as in volume loss not profits loss.
- Saket Kapoor:** For this quarter, regarding third quarter, how much have been, totally it is the operational profit or have we booked inventory gain positive, I missed the earlier commentary of it.
- Prakash P. Chhabria:** Operational.
- Saket Kapoor:** In that case Sir, this was one of the best quarter even if we take demon as a cause of... both in terms of volume, but you were disappointed that we missed a lot, had demon not played up, what would have been the incremental gain from here Sir?
- Prakash P. Chhabria:** That I do not know we did not calculate that.
- Saket Kapoor:** No, your expectations as you said it got affected otherwise it would have been a different gear altogether.
- Prakash P. Chhabria:** That we have not calculated at all.
- Saket Kapoor:** Could you share the CPVC volumes for this quarter?
- Prakash P. Chhabria:** CPVC pipes is 729 tonnes and CPVC fittings are 148 tonnes.
- Saket Kapoor:** And value terms Sir?
- Prakash P. Chhabria:** Value is 13.8 Crores and 9.7 Crores.
- Saket Kapoor:** Now that you are first on the pipes and fitting segments, are we concentrating more of the CPVC segment also because it is finding more as a commodity product now?
- Prakash P. Chhabria:** We are focusing on both UPVC and CPVC.
- Saket Kapoor:** How has the pricing spread out for this quarter for the CPVC resin stable or have they also moved up?

- Prakash P. Chhabria:** The pricing for?
- Saket Kapoor:** For CPVC resin?
- Prakash P. Chhabria:** Actually it is stable, it has not gone up.
- Saket Kapoor:** Because the PVC price has gone up, there has been...
- Prakash P. Chhabria:** But they are two different, they do not follow each other.
- Saket Kapoor:** Any price band indication you can give for the December quarter?
- Prakash P. Chhabria:** No.
- Saket Kapoor:** And you are sourcing it from Lubrizol, from local player or from the imported one?
- Prakash P. Chhabria:** We have got various sources.
- Saket Kapoor:** Since the turnover is very slow, any particular player from which you are sourcing?
- Prakash P. Chhabria:** No, we are from various, we can source from anybody.
- Saket Kapoor:** Locally there was a talk about you testing product from DCW also, have they matched your product profile Sir?
- Prakash P. Chhabria:** Not only that, but there are various tests to be carried out, so we are just waiting for all our tests to get over.
- Saket Kapoor:** But, we are still in talks with them.
- Prakash P. Chhabria:** Yes, we have to be in talks with everybody, everyday.
- Saket Kapoor:** Just to sum up the things, if you take traditionally Q4, you are just giving us as indicative sense that it should be better than what we do we have done for the Q3. This is what you have told right?
- Prakash P. Chhabria:** That is correct.
- Saket Kapoor:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul A Shah: Congratulations for good set of numbers. Most of my questions have been answered Sir, but same trend will continue in this quarter that we will have higher profitability in PVC resins segment and lower profitability in pipe segment?

Prakash P. Chhabria: I cannot answer that question.

Vipul A Shah: Because last quarter you had highest profit bill...

Prakash P. Chhabria: I know that is what I said last quarter was the best.

Vipul A Shah: So, what are the current PVC, EDC spreads and what was the average spread last quarter at least that much you can?

Prakash P. Chhabria: Yes, that I can tell, but like I explained earlier I do not know when you joined the call like I explained earlier, you all look at a particular date and that particular day or date is not equal to the rest of the quarter or the year.

Vipul A Shah: But just for an indication.

Prakash P. Chhabria: Last quarter average was about \$700 delta will just come up presently at about \$660.

Vipul A Shah: As of today it is around \$660 right?

Prakash P. Chhabria: Yes.

Vipul A Shah: Thank you, all the best for the future.

Prakash P. Chhabria: Thank you. We will take the next question from the line of Chintan Sheth from Samiksha Capital. Please go ahead.

Chintan Sheth: Thanks for taking my question and congrats on good set of numbers. On the utilization part, just wanted to understand are we covered in terms of our own consumption of resin for the expansion we are taking up in PVC piping?

Prakash P. Chhabria: It does not matter. PVC is available anytime, anywhere.

Chintan Sheth: It does not constrain our the additional capacity of piping or fitting?

Prakash P. Chhabria: Not at all.

Chintan Sheth: What will be the utilization currently of the existing facility?

- Prakash P. Chhabria:** Of the existing?
- Chintan Sheth:** Of the existing capacity, of the PVC piping or PVC fitting?
- Prakash P. Chhabria:** For third quarter?
- Chintan Sheth:** Yes, as of December?
- Prakash P. Chhabria:** No, third quarter the volumes were low, so obviously there was a inventory pile up, but normally it is 60%, 65% is the utilization for our own consumption, because for our masar plant we source PVC from outside.
- Chintan Sheth:** Okay and one thing I need to understand in the Q2 balance sheet, we have a sharp jump on equity as well as current investment. I might have missed out on the particular event, can you recap me on this front?
- Prakash P. Chhabria:** Sharp up front, sharp jump in what?
- Chintan Sheth:** Non-current investment is around Rs.1000 Crores and our reserve base is also increased by...
- Prakash P. Chhabria:** This is basically because of Ind-AS our investment in Finolex Cables that value when it moves; it has to be reflected in the balance sheet.
- Chintan Sheth:** The equity investments on this, that is reflected on the comprehensive income as well, the change in the market to...
- Prakash P. Chhabria:** Exactly.
- Chintan Sheth:** Okay. Thanks and all the best.
- Moderator:** Thank you. We will take the next question from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Thank you for the opportunity. My first question is a number of SKUs, if you could just quantify what it was start of the year, what it is right now and how do we plan to ramp this up as Sir just that you indicated that our focus is on pipes and fittings side incrementally?
- Prakash P. Chhabria:** In both pipes and fittings, we keep on adding SKUs, but currently the total is about 1500.
- Ritesh Shah:** How much was it at the start of the year?

- Prakash P. Chhabria:** This would be about 1400, so 100 could have been added during the year.
- Ritesh Shah:** Any stated goals for how do we plan to increase this number going forward?
- Prakash P. Chhabria:** We will keep on adding, there is no fixed rigid target, so depends on demand and our readiness.
- Ritesh Shah:** Okay and secondly you have basically upped the capex from Rs.30 Crores to Rs.50 Crores, so earlier we used to give a broad volume guidance of 12% to 15%, Sir would you like upward revise this number as well?
- Prakash P. Chhabria:** Today no, it still remains 12% to 15%, but this year of course, the volume growth we will not see, so it is from FY2018 onwards.
- Ritesh Shah:** That helps, Sir lastly on EBIT margins for PVC pipes and fittings business, what we have seen that the margins have dropped a bit against last year and this is something which we also saw in the prior quarter as well. How should one look at the EBIT margins for PVC pipes and fittings, is it 9%, 10% a sustainable number and the current number is lower, is it on back of lower demand, higher discounts, how should we look at it?
- Prakash P. Chhabria:** One was there was a slight drop in volumes, so when there is a drop in volumes of course there will be an impact in margin and second because of the higher selling prices obviously the percentage that you see has dropped, but if we look at per tonne, the margin is almost same as it was last year.
- Ritesh Shah:** Okay. That helps and lastly, a bookkeeping question, how much will be the realization of PVC pipes and fittings on a per tonne basis, because the numbers I think what you have reported in the presentation I think it might be including excess as per Ind-AS?
- Prakash P. Chhabria:** Basically if you were comparing last year and current year, it would have gone up by almost Rs.10 a kg, pipe segment as well as the resin segment.
- Ritesh Shah:** Sir, would it be possible for you to quantify on an absolute basis?
- Prakash P. Chhabria:** If we are taking the net sales realization from Rs.84 to Rs.94 a kg for pipes and fittings and in resin from Rs.59 to Rs.70 a kg.
- Ritesh Shah:** Perfect Sir. Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Chirag Satalvat from HDFC Mutual Fund. Please go ahead.

- Chirag Satalvat:** Sir, quick followup question. Your PVC resin sales of 56,223 tonnes if you could give that break up as well between EDC and VCM?
- Prakash P. Chhabria:** It was given for the production, see that, when we produce PVC either it is from imported VCM or from the in-house it does not matter.
- Chirag Satalvat:** It is only on production, where there is no breakup. Fair enough.
- Prakash P. Chhabria:** Okay, great. Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak:** Just a followup data point if you can help with fittings volume same quarter last year and CPVC volume also same quarter last year?
- Prakash P. Chhabria:** The fittings volume were in the last year same quarter was 3282, so almost same.
- Kamlesh Kotak:** And value wise also if you can tell me?
- Prakash P. Chhabria:** Value wise it was Rs.52 Crores.
- Kamlesh Kotak:** And CPVC also Sir?
- Prakash P. Chhabria:** CPVC volume current year was in – you are talking about CPVC fittings or pipes?
- Kamlesh Kotak:** Both Sir, pipes and fittings.
- Prakash P. Chhabria:** Pipes was 729 tonnes as against in the same quarter last year was 765 tonnes and fittings were 148 tonne as against 198 tonnes last year.
- Kamlesh Kotak:** And Sir one more thing external sale you made 25,281 metric tonne this year, same thing last year same quarter Sir, external sales of resin?
- Prakash P. Chhabria:** 17,500 tonne.
- Kamlesh Kotak:** Great Sir. Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Kashyab Jhaveri from Capital 72 Advisors. Please go ahead.

- Kashyab Jhaveri:** Thank you very much for the opportunity. Just wanted to reconfirm the numbers from the previous question you said fittings value wise number in December 2015 was Rs.68 Crores and volume wise was 3494 and this quarter this was Rs.59 Crores and 3314, so if I look at your fittings realization they have dropped from about Rs.194 Crores per kg in that quarter at about Rs.178, was there any one-off in that particular...?
- Prakash P. Chhabria:** No, it depends on mix; some fittings are with brass, so realizations are much higher because of brass content, so it depends on mix also.
- Kashyab Jhaveri:** That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Damodaran Kutty from Birla Sun Life. Please go ahead.
- Vishal Gajwani:** Vishal Gajwani here. Thanks for the opportunity. Sir I wanted to understand you did explain that PVC pipes and fittings margin percentage is lower, but absolute EBITDA per tonne is similar, but what is the potential peak margin in the next two years, for example because of volume expansion, do you see it reaching up to 9%, 10%?
- Prakash P. Chhabria:** That is all possible, but it is not going to be only because of volume, it will be volume plus pricing at that time, so to be able to predict a number for the next two years, in our business is rather impossible.
- Vishal Gajwani:** Also it might be a naïve question, but Sir wanted to understand if I look at other PVC pipes and fitting players, their EBITDA margins possibly much higher than your's, so just if you can give some sense why there is this difference?
- Prakash P. Chhabria:** Maybe because they have got better manufacturing facility than our's or better control, maybe they got better product mix, maybe they have better managers I do not know, you will have to ask them.
- Vishal Gajwani:** Okay. Thanks a lot.
- Moderator:** Thank you. Well that was the last question. I will now hand the conference over to Mr. Sanidhya Jain from S-Ancial Global Solution for their closing comments.
- Sanidhya Jain:** Thank you for the Q&A session. I also thank all the participants for the time on the call. Have a good day.
- Moderator:** Thank you. Ladies and gentlemen on behalf of S-Ancial Global Solutions that concludes this conference. Thank you for joining. You may now disconnect your lines.