



“Finolex Industries Limited  
Q4 FY2021 Earnings Conference Call”

June 28, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to Finolex Industries Limited Q4 FY2021 Earnings Conference Call hosted by Investec Capital Services India Private Limited. 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. Thank you and over to you, Mr. Shah!

**Ritesh Shah:** Thank you, Nirav. It is a pleasure to host Finolex management today for Q4 conference call. We have with us, Mr. Sanjay Math, Managing Director, and Mr. Anil Whabi, Director Finance and CFO. I will request Mr. Math and Mr. Whabi for initial remarks post which we will have a Q&A session. Over to you, Math Sir! Thank you so much.

**Sanjay S. Math:** Thank you, Ritesh. Good morning all ladies and gentlemen. I heartily welcome you on behalf of Finolex Industries Limited to this investor conference call. Hope you are all safe and thank you for your continued interest in Finolex Industries. We are happy to talk about the fourth quarter results for the year 2020-2021.

Finolex Industries ends the year 2021 on a historic high, surpassing performance of previous years. During this quarter, higher volumes on the resin front and better realizations has resulted in the highest ever revenue and net profit for annual as well as for this quarterly basis. There has been outstanding improvement in all our operating parameters.

Let me give you some performance indicators for Q4 of this financial year 2021. The highlights for this quarter: Total income from operations was Rs.1249 Crores up 62.5% against Rs.767 Crores in Q4 last year. EBITDA margin stood at Rs.424 Crores in this quarter up by 305% against Rs.105 Crores in Q4 of last year. Profit after tax was at Rs.297 Crores for this quarter up by 433% against Rs.56 Crores in the Q4 last year. You can see the performance in Q4 has been exceptionally high.

I will give you the highlights for the entire year 2021. The total income from operations was Rs.3463 Crores in the year 2021 up by 16% against Rs.2984 Crores in last year FY2020. EBITDA margin stood at 1062 Crores in this year up by 122% against Rs.478 Crores last year. Profit after tax was at Rs.728 Crores for the year 2021 up by 124% against Rs.324 Crores for financial year last year. During the year, the company generated R.940 Crores of cash from the operations.

Now getting to the segmental performance: EBIT margin in the resin segment was Rs.328 Crores in this quarter up by 947% last year and EBIT margin in pipes and fitting segment



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was Rs.69.5 Crores up by 11% last year so we continue to be a net debt free company with a net cash surplus of Rs.825 Crores as at March 31, 2021.

With these numbers, I will leave it to you for questions. I am accompanied by my colleagues, from the Finance Department, our CFO and Director (Finance), Mr. Anil Whabi, and Mr. Niraj Kedia, is also accompanying him. Any financial questions they will answer. I will leave this session open to questions for the floor. Thank you gentlemen!

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ritesh Shah. Please go ahead

**Ritesh Shah:** I will just start with the question till we have a question queue. Sir first congratulations on a good set of numbers. My first question is given we have a sizable quantum of cash on books how should one look at the capacities right now, the capacity expansion plans over next three years and secondly do we have any stated dividend payout policy in place that is the first question and we will open up the queue post that? Thanks.

**Sanjay S. Math:** I will talk about capacity. At present our capacity is 370000 ton on the pipe segment and about 28000 ton on fittings. We are quite well covered for the next two to three years in terms of our volumes that we will be selling in the market. I think this year there is some contraction which we have seen already. The capacity utilization has remained low because of that contraction. There is excess capacity at present available and there is nothing like we are reporting short of capacity, but as the market really goes up and we have signs of gearing up, I think these are definitely going into capacity expansion. On the front of dividend, I think Whabi Ji can you give an answer on this?

**Anil V. Whabi:** Ritesh, if you have normally noticed our payout ratio is somewhere between 40% and 50% and this year we have proposed a 100% normal dividend and 100% special dividend and if that is agreed then dividend payout ratio will be about 34% for this year.

**Ritesh Shah:** That helps. I will join back the queue. Nirav, over to you, please.

**Moderator:** Thank you. The next question is from the line of Aditya from Axis Capital. Please go ahead

**Aditya Bagul:** Mr. Math, Mr. Whabi congratulations on a great set of numbers. Sir just wanted to understand from you, April and May have been quite impacted because of COVID 2.0. So how has been the agri demand there and what is our outlook in terms of piping demand going forward and in the same breath if you can help us understand what is the agri, non-agri mix and how do you see that going forward? That would be helpful Sir.

**Sanjay S. Math:** As you know that from March end itself, there was second wave of COVID and April most of the states went into lockdown. I think in India somewhere around 20, 22 states were in lockdown. So the demand for resin as well as for the pipes has definitely contracted and got affected so this quarter there may be a very big setback on the agri pipes whereas we are able to continue non-agri demand little better and the agri setback. Going ahead I think the numbers of the COVID cases are decreasing and there is quite a bit of unlocking that is happening in most of the states except the southern states where the numbers are still high particularly Maharashtra, Andhra, Karnataka, Tamil Nadu and Kerala. These are the five states which are affected more and that is where the unlocking is still restricted whereas in the northern part as well as on the eastern part, I think the unlocking has done already. So the growth should start. I think we see that the normal growth could be coming up in the next quarter. Hopefully, if there is no third wave the conditions will be better. In terms of agri and non-agri mix, I think our non-agri growth has been better than the agri. Agri has been contracting almost, in Q1 it is contracted by 42% and Q2 it was little better, Q3 was better for agri, 4.5% but again Q4 you have seen a contraction of -12% whereas non-agri has been doing quite better. If we look at that Q1 last year we had -50% in non-agri also because there were no contraction going on, but later on it has picked up and if we look at Q2, Q3, Q4, together there was a growth of 10%, Q3 and Q4 it was 13%, and Q4 itself is about 22%. This momentum of non-agri is definitely what is seen which should be continued if there is unlocking and agri will depend mostly on the monsoon effect. Presently, now monsoon has already set in and almost three-quarter of the country is covered by monsoon so possibly agri demand has not picked up and it may remain subdued at the monsoon level whereas non-agri we are hopeful that it will definitely pickup.

**Aditya Bagul:** That is very helpful. Sir just two follow-ups on that if you can help us understand while you gave us a texture if you can help us understand where are we vis-à-vis last year that would be very helpful only in some qualitative measures so last year I think our total growth was impacted to the extent of almost 40% so do we expect Q1 to be similar or just trying to get some color on that?

**Sanjay S. Math:** Aditya, yes Q1 will suffer because all three months there has been a setback in this quarter so slowly as the market picks up but with this onset of monsoon agri is not likely to see the volumes that we should have seen. So obviously there is impact in Q1.

**Aditya Bagul:** That is very helpful. My second question is in terms of our margins more so with our resin margins on a steady state basis, our resin margins have been close to about Rs.11000, Rs.12000, Rs.13000 per tonne and that number has increased mutely over the last three or four quarters obviously there has been some tailwind because of rising in cost of inputs but

if you can help us try and get some understanding on how do you see this going forward either in terms of EBIT per tonne or in terms of margin then it would be very helpful?

**Anil V. Whabi:** Aditya, in case of resin there is a volatility which plays its role. Last year, we did exceedingly well because the PVC prices moved up very sharply and they have been at historic high for some time. So because of which the EBIT margin per tonne also was much better. As the prices normalize, suppose that then again it will move towards the normal levels of EBIT, but how long this will take we do not know.

**Aditya Bagul:** Just to ask that question slightly differently on a steady state basis, do we expect the 17%, 18% EBIT margin on our PVC resin.

**Anil V. Whabi:** Aditya, it is very difficult to say see each part of this has a different dynamics you know PVC moves in different direction then the inputs EDC, ethylene, VCM can move in different directions. So it is difficult to say that steady state will be this, but you are right somewhere around 15 has been our historic average.

**Aditya Bagul:** That is very helpful. Thank you so much and best of luck for the quarters to come. Thank you.

**Moderator:** Thank you. The next question is from the line of Sonali from Jefferies India. Please go ahead.

**Sonali Salgaonkar:** Thank you for the opportunity. Congratulations on a great set of numbers. Sir my first question is could you help us with the PVC to EDC spread in Q4 as well as FY2021 as a whole please?

**Sanjay S. Math:** PVC to EDC spread for Q4, is 877.

**Sonali Salgaonkar:** Sir and what was it in Q4 FY2020?

**Sanjay S. Math:** It was 574.

**Sonali Salgaonkar:** Sir and what is this currently as we speak right now?

**Sanjay S. Math:** Currently at present it is about 715 or so.

**Sonali Salgaonkar:** 715, all right. Sir my second question is regarding the pipes EBIT margin in Q4 FY2021. Now all your metrics have been outstanding in Q4, but there is a slight dip in the pipes EBIT margin. Now if we are saying that your plumbing mix is advancing or garnering

higher demand than our agri mix, how should we look at the EBIT margin and the reason for the contraction on the same?

**Anil V. Whabi:** Sonali, I think you are comparing on Q-on-Q basis if you look at YoY basis it has improved.

**Sonali Salgaonkar:** Sir for Q4.

**Anil V. Whabi:** Yes, in Q4 also on YoY basis it has improved.

**Sonali Salgaonkar:** Sir, I will get back to this because YoY was not it is 9.9% in Q4 FY2020 the PVC pipes?

**Anil V. Whabi:** So I think on EBIT per tonne.

**Sonali Salgaonkar:** Got it. Sir my third question is if you could just broadly give about a strategic view on our evolving plumbing mix versus our agri mix? Sir currently I think we are 70% in agri for the past two quarters we have been speaking about foraying more into plumbing so any kind of update or the kind of distribution we have enhanced for that would be quite helpful?

**Anil V. Whabi:** Sonali, if you see in 2018-2019 this in terms of value the ratio was 70:30 now FY2021 we have ended the ratio is 63:37.

**Sonali Salgaonkar:** 63:37 this year. Great Sir. Sir any color or any updates in terms of how much we have evolved in what regions we are boosting our non-agri in what categories etc.?

**Anil V. Whabi:** We are trying to address in all the regions so it will take time.

**Sonali Salgaonkar:** Sir my last question is for CPVC volumes and revenues in FY2021 versus FY2020?

**Anil V. Whabi:** See FY2021 volume was 9635 tonnes.

**Sonali Salgaonkar:** Sir versus FY2020?

**Anil V. Whabi:** FY2020 was 9299.

**Sonali Salgaonkar:** Sir and revenue?

**Anil V. Whabi:** Revenue for FY2021 is 297 Crores and FY2020 revenue, it was 290 Crores.

**Sonali Salgaonkar:** Sir and just one last question regarding our vision, where do we expect our non-agri mix to go say over the next five years?

- Sanjay S. Math:** See, the growth is seen to be more in non-agri compared to agri so our mix has to be changing continuously. How fast we can get into more non-agri is the question. This ratio will definitely be improving. Now as Whabi Ji said on the revenue basis it is at present 63:37 crossing 60:40 is the next target that we are looking at. That is on revenue side.
- Sonali Salgaonkar:** Sir and what about our retail touch points?
- Anil V. Whabi:** It continues to be more than 21000.
- Sonali Salgaonkar:** Sir any indication how much we have added in FY2021?
- Anil V. Whabi:** No, I do not have that number.
- Sonali Salgaonkar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Chirag from HDFC Asset Management. Please go ahead.
- Chirag:** Good morning. Congratulations for a fantastic quarter and year as well. I have a few questions Sir, one if you could tell us for the first quarter and for FY2021 the prices for PVC, EDC, ethylene and VCM?
- Sanjay S. Math:** Yes, we can give you. The fourth quarter PVC prices 1483, EDC is 605, ethylene 963, and VCM is 1152, PVC-EDC delta 877, and PVC-VCM delta 331.
- Chirag:** For the full year?
- Sanjay S. Math:** For the full year PVC is 1094, EDC is 384, ethylene 768, VCM 835, PVC-EDC is 711 and PVC-VCM 260.
- Chirag:** Would you have it to the Q4 of 2020 as well?
- Sanjay S. Math:** Yes, the PVC 883, EDC 308, ethylene 688, VCM 758, PVC-EDC 574, PVC-VCM 125.
- Chirag:** Sir the second question was in terms of profitability you mentioned the average for PBIT per tonne when you look at PVC resin actually over last five years if you were to exclude FY2021 has been closer to 12000 not closer to 15000 in fact the peak has been 15000 in FY2017. So where do you think this is? I know this is the very volatile segment and the prices can change very substantially but if you could help us understand both in the resin business as well as in the pipes business what do you think are sustainable margins?



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- Anil V. Whabi:** Chirag, for PVC resin segment as you know, it is difficult to state and you are right historic average has been around 15 so hopefully in coming years also it should remain so but it is difficult to say because you do not know how what way the prices will move in each quarter but if you see for the year it averages out to around that figure.
- Chirag:** No, I mean the average for the last five years excluding FY2021 has been agri 11500 or 12000?
- Anil V. Whabi:** Yes, but after that if you will see you are aware that the duties were raised on PVC resin so after that it has inched up from Rs.12 it has moved closer to Rs.15. So but pipe segment is relatively stable so there that the margins has improved on an average from Rs.8 a kg which we have previous back it has gone up to Rs.10 and beyond.
- Chirag:** Do you think that level of Rs.10 is sustainable?
- Anil V. Whabi:** We hope it would.
- Chirag:** Why has it moved up in pipes and resin, we understand because of commodity price movement in pipes why is it moved up?
- Anil V. Whabi:** No, it is because of higher focus as we discussed just a little while back in higher growth in non-agri, it does help, fittings volume growth does help more CPVC business so all these things coupled together has helped.
- Chirag:** Lastly what are the inventory gains for the full year in either of the segments if any?
- Anil V. Whabi:** It is difficult to state but in our case inventory gains may not be high because in pipe segment we do not carry large inventory of PVC resin.
- Chirag:** Sir last question from my side what is the capex for this year?
- Anil V. Whabi:** For FY2021?
- Chirag:** For FY2022.
- Anil V Whabi:** FY2022 about 100 Crores right now as Mr. Math also mentioned the expansion on pipes side has not been taken into consideration so normal replacement and these investments will be there so about 100 Crores but movement we will see signs of improvement we will go for expansion.





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- Chirag:** Thank you.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial Services. Please go ahead.
- Praveen Sahay:** Thank you for taking my question. Many congratulations on a great set of numbers. Sir my question is on degrowth in the volume so definitely the agri has not done well. My question is how much is this volume degrowth driven by the price because the prices have shot up significantly and definitely there is a one part is the lockdown and the COVID, how much of this is do you see it as the prices gone up and that is why there is the restriction from the brand?
- Anil V. Whabi:** Praveen, this is actually difficult to state. Both the prices have played their role, the prices as well as the disruption, pandemic disruption so both has played the role, but it is difficult to pinpoint how much would it be for one.
- Praveen Sahay:** On the pricing as we know that the PVC resin prices post a \$2060, \$2070 per metric tonne now come down to some \$1350 or so. So where you see this stabilization to go because the economy is opening, factories are opening in the western world?
- Sanjay S. Math:** We are looking at various reports coming from ICIS or IHS. I think this year there will be some softening coming up but it is not going to be at the level of the normal long-term average of \$1000 to \$2050. I think it will stabilize somewhere about \$1200 to \$1300 that is what is the predication given by ICIS. So the PVC prices will be remaining about 20% to 25% higher than the long-term average.
- Praveen Sahay:** Any specific reasons for this prediction or you are looking at some dynamic changing in the global world?
- Sanjay S. Math:** It all depends upon still there is a contraction all over the world I think the COVID waves have not receded. I think many countries are still under partial lockdowns so inter-region trades are in problem and most of the integrated producers are producing to the level of intra-region trades. So there are some of the issues which are there on the trade side, freight rates have gone up, container rates have gone up so that is one part which is also affecting the overall pricing of CSR level and there are people who were taking up some of the long-term shutdowns, taking the advantage of this COVID situation. There is a little bit of imbalance between supply and demand although their supply demand imbalance is not so much that it will be disproportionately price hike is supported, at the same time there is some shortage on supply side than the demand side.



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- Praveen Sahay:** You expect this spread of PVC, EDC also to be in the range of around \$700?
- Sanjay S. Math:** That we cannot say because you see all the inputs are slowly adjusting to the final PVC price for example EDC has also moved up in last year, VCM also as they moving up. VCM in today also if you see VCM is about \$1100. So it is not like the long-term average for VCM is about \$700, \$750, when PVC is about \$900, \$950. So as PVC moves VCM also moves and then EDC also moves up. So these all will individually be correcting themselves in terms of the input prices. What is important for us is not that it is the importance is the margins between the PVC, EDC delta and VCM, PVC delta.
- Praveen Sahay:** The next question is related to the CPVC so how much of the volume you are targeting to grow in this business this 9600 metric tonnes you are doing so how much like can go up?
- Sanjay S. Math:** I think last quarter in Q4 we have done 3692 . If we see that kind of a momentum is maintaining we will cross 14000 tonnes but that is our hope that we continue to operate on that range. Unfortunately, Q1 has given us a setback because of the pandemic and the activities have been installed but that is what we can see that there is a continuous growth in CPVC. Q4 total growth was about 42%. Q2, Q3, Q4 total growth was 25% and Q4 itself is 67% over the last year. So you can see that the growth has been from 25% to 40% to 60% in this last three quarters. Q1 being very low because we did not have any business in Q1 last year and that is where it was -62% in Q1 and so the overall year we have grown just hardly was 3.6%, the momentum we can see a mix in Q2, Q3, Q4.
- Praveen Sahay:** You have a capacity to go up in this segment?
- Sanjay S. Math:** We have a capacity to go up, yes.
- Praveen Sahay:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Sorry to miss this if it was already answered. But Sir can you just tell us what was the volume growth and pricing growth in two categories that is agri and non-agri is that possible, in terms of the tonnage?
- Sanjay S. Math:** That number is not right now available.



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**Pranav Tendulkar:** That is one and also what I have noticed is that your working capital is much better than other players and is there a different business strategy when other players that you think is beneficial for you?

**Sanjay S. Math:** No, we have been following cash and carry model for very long period.

**Pranav Tendulkar:** Correct. I know that I am just asking that is that beneficial in the sense, if you just provide some working capital will not that be helping your volumes?

**Sanjay S. Math:** Earlier, if you look three years back this entire business was on cash and carry basis but then off late we have started providing credit in non-agri part of the business.

**Pranav Tendulkar:** Sir over last one year I agree that there was some pent-up demand but do you see any structural changes in the demand that have also contributed to increasing volume, something like home building going up or something like infrastructure going up or any structural changes that you see that will sustain over next one year?

**Sanjay S. Math:** No, this of course because of pandemic this also has been affected but if you look at the medium-term we are sure that because of large unmet demand in housing the activity will pickup and there will be volume growth in agri pipes, in irrigation, past few years have not seen the growth that it should have so there also with all these government initiatives and the change in farm practices we should see growth but we see that there in housing the growth will be better that is what we see.

**Pranav Tendulkar:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

**Rajesh Ravi:** Good afternoon. Sir congratulations on great set of numbers. I have few queries; first is in terms of the pricing trend that we have seen currently across agri, non-agri pipes what sort of price increase we have seen in first quarter?

**Anil V Whabi:** See prices as PVC prices move down obviously the pipe prices also has come down in tandem. So PVC prices have corrected by about 20% in the international market and the prices are correcting in India as well.

**Rajesh Ravi:** In terms of at retention level do you see that is sustaining too or the cost pass through which cooling off of the PVC prices, is that PVC pipes price impact is higher how is the scenario?

- Anil V Whabi:** When the volumes are low obviously in a falling prices situation, there will be complete pass through so there is some pressure in the volumes.
- Rajesh Ravi:** How is in the non-agri portfolio Sir?
- Anil V Whabi:** In both.
- Rajesh Ravi:** No because there the demand is as I said that we have seen good demand I mean when I assume the industry...?
- Anil V Whabi:** But historically also the PVC price movements have been passed on into the market completely. So that is what is happening now also.
- Rajesh Ravi:** If I see 4Q versus 3Q your realization like we have pipes and fitting realization increased by Rs.20 a kg versus third quarter and if I see even the resin realization from Rs.100 to Rs.122 so there has been a similar increase in both the resins as well as the pipes realization whereas the margin level play there is from Rs.16 a kg your EBIT margin has come down to almost Rs.11.5 there is a Rs.5 contraction?
- Anil V Whabi:** Yes, but you are looking at Q3 only, if you look at Q2 or earlier quarters it was around some Rs.11.
- Rajesh Ravi:** I agree so I am saying the Q3 was having some exceptional gains which is between...?
- Anil V Whabi:** It was because of some lower costs and there have been some provisions in the Q4 which have increased the costs, so it is effect of that.
- Rajesh Ravi:** Lastly in terms of now with the PVC prices coming down and that getting passed through what sort of recovery you are looking in the agri demand?
- Anil V Whabi:** See Q1 is almost last because of the pandemic disruptions and the monsoon season you know so Q2 there is hardly any volume in agri so hopefully from Q3 onwards if the situation is normal, we should see pickup in agri pipes.
- Moderator:** Thank you very much. The next question is from the line of Tarang Agarwal from Old Bridge Capital Management. Please go ahead.
- Tarang Agarwal:** Good morning. Just a question on the non-agri front; Sir, if you could give some flavor on what is really any geographical location or what industry segment has driven volumes in



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FY2021 and some peak into what is driving your possessions on those specific areas in the non-agri business for the year to come by?

**Sanjay S. Math:** The non-agri business we are doing all across India and it is not specifically that any region has been shown an extra growth over the last year I think our distributions in geographical terms has remained almost same in non-agri. The growth has been in retail rather than on the institutional sales, so we are increasing the touch point from 18000 to 21000 I think this now started showing results on our non-agri growth in retail.

**Tarang Agarwal:** That is all. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** Congratulations for the great set of numbers Sir. Thank you for the opportunity. My first question is in terms of the geographical mix, if you could at the aggregate level for us how much would be south and west and north and east if you could highlight for FY2021 Sir?

**Anil V Whabi:** Traditionally, we have been strong in west and south which account for almost 75% of our business.

**Achal Lohade:** Would it be able to possible to give a breakup like 40:35?

**Anil V Whabi:** No I do not have those numbers.

**Achal Lohade:** Secondly what we hear is that some of the agri pipes also go into plumbing so is it the case with us as well so is there any guesstimate here how much of that is already do you consider that as part of agri or non-agri?

**Sanjay S. Math:** What we produce is we consider for agri but you are right some of it does go for applications in housing as well especially in states like Punjab or elsewhere or many cases in south as well so some part of it does go into other applications.

**Achal Lohade:** Any benefit of this Jal Jeevan mission of the government in terms of projects or in terms of retail, sales in your opinion given our distribution reach in the rural?

**Sanjay S. Math:** See it has just started, so there will be volumes in the coming years, yes.

**Achal Lohade:** Just one data point Sir if you could help us with the fittings volume and revenue for FY2020-2021?



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- Sanjay S. Math:** Fittings volume for FY2021 is 20000, Q4.
- Achal Lohade:** For FY2020?
- Sanjay S. Math:** Same number 20666. This is because in Q1 we had a big setback whereas later on I think there has been an improvement in fittings.
- Achal Lohade:** How much of that would be CPVC Sir in both the years?
- Sanjay S. Math:** CPVC separately on fittings we have not got the numbers. CPVC by itself we have given the number.
- Achal Lohade:** Yes sure and just last question if I may Sir. Given the high prices, we hear that farmers have postponed their demand but the question here is that is that the demand lost forever? Will that come back in a big way in the next year and what is the typical replacement cycle in case of agri pipes?
- Sanjay S. Math:** I think agri pipes are also a durable item. The life of the agri pipes is about 25 years so it is not necessarily that it needs to be down when the high prices are there so when the price correction we have seen, definitely the demand has to come back. The irrigation demand in India it is only about 40% of the land is irrigated and 50% is still rented there is a lot of land yet to be irrigated so agri demand has to be there for years to come. I think we are not really worried about demand not going to be there. . It maybe a temporary phase because of the higher price possibly or because of the pandemic people have postponed their decision. So it does not mean that it will not come back when the pandemic is over and the prices are almost getting corrected to the long-term average.
- Achal Lohade:** Thank you so much Sir. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Chirag from HDFC Asset Management. Please go ahead.
- Chirag:** Just a quick data point if you could tell us your PVC, EDC, ethylene and VCM prices for last year FY2020 and the current prices as well?
- Sanjay S. Math:** I will give you. Last year PVC was 884, average, EDC 324, ethylene 774, VCM 738, PVC-EDC delta 559 and PVC-VCM delta 146. This is FY2020. I think you have the FY2021 numbers.
- Chirag:** Yes, we have the FY2021 and just the current prices as well Sir?



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**Sanjay S. Math:** Current prices are somewhere around PVC 1380, EDC 665, ethylene 835, VCM 1055, PVC-EDC delta 715 and the PVC-VCM delta 325. This is as of 24. I am not talking about today's data.

**Chirag:** Sure Sir, fair enough. Thank you.

**Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Theleme Partners LLP. Please go ahead.

**Kashyap Pujara:** Congratulations for a good set of numbers and thanks for the opportunity to ask a question. I just had one question on the capex front while you mentioned the capex is only 100 Crores I just wanted to check the broader view of the management given that we have made landmark profits on the PVC front and historically our capacity has been close to 240000 to 250000 tonnes so is there a thought process now to kind of expand capacities there or kind of go backward integrated and do the EDC to VCM route for the capacity which for 50% of the capacity which is VCM to PVC so just wanted to understand what are the broad thoughts on expanding on this front?

**Sanjay S. Math:** On the pipes and fittings business we have already told you that present capacity we have is sufficient enough for the next two to three years and this particular segment does not require too high time for setting up additional capacity so as we see growth in that segments and we feel that there is a limitation coming in servicing the market, we will definitely get into it and then we will decide where to do it, whether in the west or whether it is in the north or south or east whatever depending on the demand in that particular region. So that is definitely on the anvil it will come. About the resin capacity last time also we said that we are still not able to get any kind of an assurance on the feedstock business, the feedstocks particularly ethylene based feedstocks are not easily available and there is surety of those feedstocks over a longer period of 10 to 15 years where there could be a contracted feedstocks availability and that is where it is still under hold.

**Kashyap Pujara:** Basically all programs on the building out all weather coat or maybe the VCM to EDC to VCM or any incremental capacity all those things are kind of on hold even we are doing?

**Sanjay S. Math:** Even if we make all weather coat we should get the assurance on the feedstocks otherwise the present operation does not call for any other investment on the all weather coat at present.

**Kashyap Pujara:** That is all from my side. Thank you so much and wish you all best of luck.



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- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.
- Rahul Agarwal:** Congratulations for a great set of results. Some of the questions partially got answered, I just want to clarify on the capacity you said it is about 370000 tonnes for pipes and to that 28000 tonnes of fittings is included in that, is that correct?
- Sanjay S. Math:** No Sir. Fitting is separate.
- Rahul Agarwal:** Is that in-house or is it outsourced capacity?
- Sanjay S. Math:** 37000 tonnes of fittings.
- Rahul Agarwal:** Is that 28000 tonnes of fittings outsourced or in-house capacity?
- Sanjay S. Math:** It is outsourced yes. We have long-term in contracts with our subcontractors so we are doing it.
- Rahul Agarwal:** CPVC is about 20000 tonnes right in terms of capacity?
- Sanjay S. Math:** You are talking of west or you are talking of CPVC?
- Rahul Agarwal:** CPVC.
- Sanjay S. Math:** See CPVC is part of this 370000 tonnes.
- Rahul Agarwal:** Yes. I got that. What I wanted to know was CPVC capacity was 20000 tonnes right?
- Anil V. Whabi:** Yes, around 20000.
- Rahul Agarwal:** March 2022 essentially the way you have described the capex plan of 100 Crores is going to be largely replacement and there is no capacity increase in March 2022 at least is that correct?
- Anil V. Whabi:** No, if that is required we can go through but right now 100 Crores is only for those replacement and some marginal assets not for capacity expansion.
- Rahul Agarwal:** Inventory gain so it is very tough to understand margins on the resin side some ballpark number could you help for fiscal 2021 as and what could be the range at least?
- Anil V. Whabi:** No. It is difficult. It is not possible.





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- Rahul Agarwal:** One small question on PVC resin captive consumption generally the ratio has been about 70%, 75% or whatever you produce is used captively is it practically possible for this number to go to 100% or based on input, output ratio it will never actually happen?
- Anil V. Whabi:** No of course it is possible. So the preference will be our own plant. So, obviously as the plant starts to producing more we will consume more in-house PVC.
- Rahul Agarwal:** Going forward as pipe capacity utilization goes up obviously we should assume that the resin captive utilization goes up right?
- Anil V. Whabi:** Yes, it will.
- Rahul Agarwal:** Lastly, on dividend so obviously it is a record cash flow year for the company. You have announced special incentive for employees, dividend payouts though including special dividend is 34%, which is lower than the historic average. Any specific reason for that I would imagine the payouts have to be higher than that, right?
- Anil V. Whabi:** No, payouts do not have to be higher. In our case if you see this 34% also is high. I do not think all the companies have such high payout ratio.
- Rahul Agarwal:** Yes, that is true. I am talking about Finolex on a standalone basis. Generally you pay about 40%, 50% as you said, so in this year I was expecting maybe as a special incentive you would actually pay higher so any reason for the payout to be lower?
- Anil V. Whabi:** The board discussed and decided of this.
- Rahul Agarwal:** Got it. Thank you so much, all the best Sir. Thank you so much for answering.
- Moderator:** Thank you. The next question is from the line of Utkarsh Nopany from Haitong Securities. Please go ahead.
- Utkarsh Nopany:** Good morning Sir. Sir I have few questions. First was regarding the sales volume. So if you see our sales volume growth in FY2021, it is around 20% down compared to what we have done in FY2019, which is primarily due to weak agri pipe demand. Sir just wanted to know from you even if PVC resin prices remain high in near future do you expect agri pipe demand to come back strongly from December quarter onwards if pandemic issues largely get resolved by that time period?
- Sanjay S. Math:** Yes, I think yes. There are two reasons which we gave is one is the price and other one is pandemic and the demand is there in agri section because irrigation pipes are required and

India is still not irrigated fully so there is a demand for irrigation anyway. Agri section has to come. It is only a time.

**Utkarsh Nopany:** Like despite a weak demand environment in the current June quarter period, do you think that there is a possibility of clocking similar sales volume for pipe segment in FY2022 on expectation of pent up demand for agri pipe coming up in the coming quarters?

**Sanjay S. Math:** Last year because of pandemic and the Q1 loss, we have a contraction of about 16.8% on the total volumes agri plus non-agri. Non-agri is slowly picking up for us and it is growing better than non-agri, even better than agri. Now agri demand if it is coming back in Q3, Q4 I think our next target should be that we go back to the number of 2019.

**Utkarsh Nopany:** Can you please help me out with one data point that what is our agri and non-agri pipe sales volume growth rate in FY2021 over FY2020?

**Anil V. Whabi:** I do not think we have those numbers right now.

**Sanjay S. Math:** I will give you some number. Agri is -21% and non-agri is still -4.5%. This was the Q1 drop so non-agri has done better in the further quarters but the Q1 drop has not been fully compensated and so non-agri also has -4.5%.

**Utkarsh Nopany:** Sir regarding our capital allocation policy we have a pretty limited capex outlay of 100 Crores at the moment for FY2022 and we have a net cash position of 825 Crores plus historically we have been generating cash flow from operation of around 400 Crores to 500 Crores annually in the past. Also wanted to know do we have any plan for buyback of shares in the future, considering the large cash balance, we are having and limited capex program in the near future?

**Anil V. Whabi:** One thing is sure we will not continue to keep large cash on our balance sheet. So we will look for investment opportunities in projects and if that does not come though obviously money has to go back to shareholders.

**Utkarsh Nopany:** Sir lastly how many SKUs do we have currently for pipes and fittings as of March end?

**Anil V. Whabi:** It is 2100 plus.

**Utkarsh Nopany:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Mr. Ritesh Shah. Please go ahead.



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- Ritesh Shah:** Thank you for the opportunity. Sir my first question is how should one look at the scenario wherein the PVC resin prices are going down? The inventory days have reduced on a year-on-year basis but it is still higher as compared to last couple of years, how should one look at it if you can break it up between raw material and finished goods that would be quite useful?
- Anil V. Whabi:** Obviously, in these times it is a finished goods inventory which has accumulated. Raw material inventory anyway for our imports we need to have two months inventory always so once the things normalize the finished goods inventory should come down.
- Ritesh Shah:** Sir would it be possible for you to qualify how much is the average cost of raw material inventory that we have for EDC, ethylene and VCM?
- Anil V. Whabi:** No, see as I said two months inventory we always have for these items. So that will continue to be there. Obviously, in value terms it depends on the prices of these inputs.
- Ritesh Shah:** On the employee cost we understand that there was a variable component which is a credit thing; two questions over here; one is what is the normalized employee cost going forward? That is one. Second is we have earlier spoken about bringing in a variable component link to sales for the marketing and sales people. Has it something which as change as a policy as a management move over say last one year or something?
- Anil V. Whabi:** See in Q4 the numbers you see are one time cost but on variable pay front, we are working within the company.
- Ritesh Shah:** Sir on new product launches we have seen our peers has actually get into newer variables like tanks, walls, etc., etc. Just wanted to understand the company's thought process given we have such a solid brand and distribution we are getting into non-agri aggressively, but how should one look at the new product launches to optimize on the current brand and distribution that the company have?
- Anil V. Whabi:** We have been looking at these opportunities. Right now there is nothing which can be mentioned but yes with the passage of time we would see that some products we do enter into new lines.
- Ritesh Shah:** Sir lastly just to reconfirm on working capital have we changed our working capital policy on agri pipes probably for a small tenure or something and then we moved away from cash and carry and specifically for CPVC how much is the credit that is available in marketplace right now?



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- Anil V. Whabi:** Normally credit in these has given on 45 to 60 days, but in agri we continue to do on cash and carry basis.
- Ritesh Shah:** It has not changed? It continues to remain cash and carry right?
- Anil V. Whabi:** Yes.
- Sanjay S. Math:** In difficult times like this we may allow some credit but as a policy we are continuing with cash and carry in agri.
- Ritesh Shah:** Sir the working capital number that you are looking at on March end basis does it capture an element of some credit on the agri side which will actually normalize going forward?
- Anil V. Whabi:** Yes.
- Ritesh Shah:** That helps Sir. Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Siddhant Dand from Goodwill Warehousing. Please go ahead.
- Siddhant Dand:** My question was regarding that we are a pan India player and we want to expand more but our production has been in the West of India so will freight cost and your rising fuel cost affect our competitive advantage because our competition has plans all across India?
- Sanjay S. Math:** I think the freight cost definitely affects to some extent but what we have said last time also that unless there is a critical mass for a particular region, we will not be taking up the investments and setting up unit there more or less east and north are the areas north we are supplying through our Masar plant that is Baroda, the only question is about the east.
- Siddhant Dand:** So if there is a scale then only it will make sense?
- Sanjay S. Math:** That is right.
- Siddhant Dand:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Thank you. Congratulations for great set of numbers. Prakash Sir generally comes for this March ending quarter call, but I think due to some pre-engagement he may not have come.

My question is what is our capacity for CPVC pipes currently and are we going to add any capacity in this particular segment?

**Sanjay S. Math:** Since our CPVC is made in the same facility, there is nothing like a separate capacity for CPVC and UPVC.

**Vipul Shah:** Is it fungible?

**Sanjay S. Math:** We can switch from one to another anytime.

**Vipul Shah:** So last year it was around 20000 tonnes if I remember right?

**Sanjay S. Math:** It is a notional number as I said. The switching is easily possible from one product to another product so depending on which product is having a demand in that sense it will be a product under utilities.

**Vipul Shah:** Sir I was just asking what is our discount in CPVC products as compared to our established peers?

**Sanjay S. Math:** I think that question Mr. Whabi will answer. Do you have any other question?

**Vipul Shah:** No Sir.

**Moderator:** Sorry to interrupt you, we have Whabi sir reconnected back to the call Sir. Vipul may I request you to repeat your question once again please?

**Vipul Shah:** I just wanted to know what is the price discount in CPVC segment versus our established players in terms of percentage?

**Anil V Whabi:** There is no special discount. The supplies are made at the rolling market prices. I do not think there is any discount to the price in the market and we discount our own prices.

**Vipul Shah:** Thank you.

**Moderator:** Thank you. The next question is from the line of Arun Baid from BOB Capital Markets. Please go ahead.

**Arun Baid:** Sir just one clarification you said that you want to target FY2019 volumes in FY2022 is that correct?



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- Sanjay S. Math:** Yes something like that because last year was a contraction -16.8% that cannot be a baseline. We will definitely go beyond that but GDP ratio will grow and we just recovered back. I think if you see globally also even the demand has contracted...
- Anil V Whabi:** While he is getting connected, I am Anil Whabi here. See we did about 263000 tonnes in FY2019. What he is trying to say is at least we would try to cross that number
- Arun Baid:** In FY2022 itself?
- Anil V Whabi:** Yes, but with the correct situation.
- Arun Baid:** Yes Sir because Q1 we know is bad that is why I just want to try for that point despite that we are saying that right Sir?
- Anil V Whabi:** We are trying to target that yes.
- Sanjay S. Math:** I think last year was a different year because of the Q1 we lost the business and that is why the overall year contraction was about 16% or 16.5%. So recovering back to the level of 19% is what is the target that we are really looking at.
- Arun Baid:** Sir that is despite that bad Q1 I just asking that because Q1 we know is bad right so despite that you are targeting that is nice to hear.
- Sanjay S. Math:** Yes, Q1 is bad and it is not as that as last year. I think we will be little bit better than last year.
- Arun Baid:** Sir just one more clarification was that, Anil Sir somewhere mentioned that Rs.15000 per metric tonne is what we should look at on a normalized basis in PVC resin business so that 15000 number as in earlier participant asked historically has been lower so that number we are sure when things normalize, as of today it maybe different but that is we are pretty sure that number right?
- Anil V. Whabi:** No, I never said we are trying to look at that number or we are sure about that number, I mentioned historically if you see past few years that has been the average but even when the things normalize I am not sure whether we can do that number in case of PVC nothing can be said.
- Arun Baid:** Thank you Sir.



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- Moderator:** Thank you. The next question is from the line of Mr. Ankit Gupta from Bamboo Capital Partners. Please go ahead.
- Ankit Gupta:** Thanks a lot for the opportunity. Sir just wanted to check with any specific geographies which are facing challenges on the PVC pipe, any specific geographies on agri pipe front which is facing challenge?
- Sanjay S. Math:** I think we are very strong in south and west. All these five states, as I said Andhra, Karnataka, Tamil Nadu, Kerala and Maharashtra, all five states are under pandemic and they are in a very stringent lockdown conditions. We are losing business on agri in these five states.
- Ankit Gupta:** Sir on overall annual basis like say there is no further disruptions on the COVID side going forward for the rest of the nine months do you think we can come back to FY2020 levels again on the pipe and fitting business?
- Sanjay S. Math:** We hope that this pandemic will be over and there is no great third wave that what we talk about if there is a third wave I do not know how it will go about, so these are the things that are unknowns. We should not be predicting something which we have no control on but if there is no third wave and the pandemic is receding as we see now from 4 lakh cases to about 60000 or below 60000 cases now so if that continues then the market is also getting open more and more. We will see that the normal condition will prevail and those people who have not done whatever in the last one year possibly will come back to the market.
- Ankit Gupta:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Mr. Aditya from Axis Capital Limited. Please go ahead.
- Aditya Bagul:** Thank you for the followup opportunity. I just have two small questions Sir. First is if you can just help us understand within our pipes segment what would be the normalized EBITDA or margins for our agri and non-agri business?
- Anil V. Whabi:** Aditya, I do not think we have those numbers but normally from an average of Rs.10, Rs.11 agri does little lower and non-agri obviously because of higher volume of fittings is always better and even in terms of prices, the prices are little higher in non-agri.
- Aditya Bagul:** Would it be fair to assume that there could be Rs.4 or a Rs.5 delta between agri and the non-agri price?



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- Anil V. Whabi:** Again it depends. CPVC commands higher prices and so within non-agri also each category has different prices ASTM is better than SWR.
- Aditya Bagul:** Second and this is more strategic question. Just wanted to understand what will it take for us to sort of transition to a business where we have 50% agri and 50% non-agri. I am just trying to understand what is it that we will have to do differently to improve our share of non-agri?
- Anil V. Whabi:** No. We have to continue doing what we are doing so slowly with the passage of time it will happen in some years.
- Aditya Bagul:** Thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.
- Rajesh Ravi:** Sir just one follow-up question how much your resin demand for the pipes are we procuring from outside or it is totally captive?
- Sanjay S. Math:** Resin is always captive.
- Rajesh Ravi:** Sir the pricing trend for the resins would that be indicative of the overall PVC prices in India. I just wanted to understand that the imported resin prices should be in sync with your realizations?
- Sanjay S. Math:** Yes. You are talking about the transfer pricing in the segment?
- Rajesh Ravi:** Yes, from an industry perspective the realization which you are generating in the resin segment so that will be indicative of the market price?
- Anil V. Whabi:** Yes, of course always.
- Rajesh Ravi:** Great Sir. That was all from me. Thank you.
- Moderator:** Thank you. The next question is from the line of Karan B from Asian Market Securities. Please go ahead.
- Karan Bhatelia:** Two questions from my end. Sir how is the dealer inventory given the fact that we are expecting still from southward movement in the PVC prices and second we keep hearing of





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market consolidation playing out in the plastic piping industry so are we at peak or we can still see some market share gains for the top five, 10 players? Thank you.

**Anil V. Whabi:** Normally dealers do not stop large inventory so they basically source pipes only when they have visibility of business. So I do not think any of the dealers have more than eight day stocks with them and as far as consolidation is concerned yes in these times unorganized market is getting affected so slowly there will be a shift from unorganized to organized.

**Karan Bhatelia:** Sir we are very aggressive on the CPVC portfolio how is our SKU strength. You mentioned 2100 SKU is total for piping so how much can be assume for the CPVC?

**Sanjay S. Math:** 375.

**Karan Bhatelia:** Thank you that is it from my end.

**Moderator:** Thank you. The next question is from the line of Mr. Prateek Bhatnagar from HSBC Securities. Please go ahead.

**Prateek Bhatnagar:** Thanks a lot for taking my question. I just have one most of my question got answered. So the question is on the like we have seen that there has been shipping and trade disruptions globally, there has been unavailability of container truck so how it has impacted Finolex was there an issue where Finolex had faced any issue in importing ethylene, VCM, EDC, have they faced any issues in terms of procurement, have the freight costs for them gone up or have there be any force majeure of importers?

**Sanjay S. Math:** I think we are under long-term contracts with all our suppliers for the raw materials so ethylene, VCM, EDC are long-term contracts and they go by a formula of IHS declared prices. So these are all CFR India prices that prevail and there is no difference that happens on this. There has been on disruption for particularly our raw materials but possibly there is somewhere the pricing correction that happens is as PVC prices go up the prices of IHS also go up so this is again a formula based so it is not that we have any kind of disruption on that side either pricing or supply chain or in terms of logistics. To some extent there is a setback on some additives and some imported small chemicals which are possibly are under short supply but we have been covering with domestic as well as imported and together we manage it.

**Prateek Bhatnagar:** So in the past we have seen a force majeure for example EDC if something like this happens for Finolex what do you do? How do you take care of it?



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- Sanjay S. Math:** I think the EDC force majeure have been very short-termed. There will be some of the things that we are going to see are the long-term shutdowns coming up with our suppliers. In that case we are taking proactive actions for getting supplies from other places so there are many such alternate suppliers available beyond contracts. So we have somewhere or other the spot buying for such type of situations. So it is not that 100% we will be dependent on contract, some spot buying will be there and spot prices are sometimes better than contract prices.
- Prateek Bhatnagar:** Thanks a lot. These were the questions, I had.
- Moderator:** Thank you very much. The next question is from the line of Mr. Ritesh Shah. Please go ahead.
- Ritesh Shah:** Just two questions one is Sir you indicated we have a percentage of a production which is via outsourced route is there a thought process within the group to make it in-house?
- Sanjay S. Math:** We always will work out make and buy decisions. It is not necessary that this model will be permanent. It is also possible that we can think about some of the specialty items to make ourselves and general fitting portfolio to be given on outsourcing. It all depends upon that.
- Ritesh Shah:** What will be the sort of margins via the outsourcing route?
- Anil V. Whabi:** Ritesh the margins do not defer much so that is why the outsourcing continues.
- Ritesh Shah:** Sir any update on the goods structure simplification? Is it something which is a possibility? We hear it from the market that things are moving. Is there any update on that side?
- Anil V. Whabi:** Ritesh, I did not get your question.
- Ritesh Shah:** Sir the question is, is there anything progressing on the group structure simplification. I am referring to the only future costs?
- Anil V. Whabi:** Nothing right now.
- Ritesh Shah:** Perfect. Thank you so much for the answers. I think we can close the call, Nirav. I would request Whabi Sir and Math Sir for any closing remarks. Thank you.
- Sanjay S. Math:** Thank you all of you. We are happy that you had the right questions to ask us and we have been able to give you the right answers I think you have satisfied with those answers. We definitely value your relationship with us and we look forward that you continue to be with



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us and we look at your support in terms of investments. Thank you gentlemen. Thank you all.

**Moderator:** Thank you very much. On behalf of Investec Capital Services India Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.