



# “Finolex Industries Limited Q4 FY 2017 Earnings Conference Call”

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**MANAGEMENT:** **MR. PRAKASH CHHABRIA -- EXECUTIVE CHAIRMAN,  
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**MODERATOR:** **MR. RITESH SHAH – INVESTEC CAPITAL SERVICES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Finolex Industries Q4 FY 2017 Results Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you and over to you, sir!

**Ritesh Shah:** Hi. Thanks, Inba. We have Finolex Industries management with us. We have Mr. Prakash Chhabria -- Executive Chairman; Mr. Anil Whabi -- Director (Finance) and CFO; and Mr. S. Krishnamoorthy -- Head of IR.

Without much ado, I will request Mr. Prakash to start with initial comments for Q4 and the full fiscal. Post which, we will have a Q&A session. Over to you, sir!

**Prakash Chhabria:** Thank you, Good morning everyone and I welcome you to Finolex Industries Investor Relations Call. I am pleased to state that FY 2017 has been a year with record profits and dividend. I am sure the numbers are with you and will just go through them on a macro level.

Sales volume for PVC Pipes and Fittings for Q4 was down by 5.5%; the sales volume for Resin was down by about 8%. The total income from operations was up by about 10%. EBITDA for the quarter stood up by about 54% and profit after tax was up by about 50%.

For the full year, the sales volume basically was flat in PVC Pipes and Fittings. The sales volume for PVC Resin including captive was down by about 5%. Total income from operations was up by 5%. EBITDA stood up by 39% and profit after tax was up by 39%.

The Board of Directors has recommended a dividend of 115% as compared to 100% in FY 2016.

We are basically benefited from lower crude prices which have positively affected the raw material costs and aided better margins. Ongoing Government initiatives as well as demands from the agri and non-agri sectors should push up growth in the PVC segment.

I am very happy about our recent collaboration with Lubrizol, USA, which has reinforced our commitment to the non-agri space. FlowGuard their product will be a groundbreaking product, for us and will service the Indian hot and cold-water plumbing industry.

Our track record of providing superior products for the Indian market has strengthened multifold, the effects of which will be visible in the coming years. Currently the non-agri space is about 30% of our earnings and we hope to bring it up to 50% in the next four years to five years.

I would now like to leave the floor open for questions.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Ritesh Shah from Investec Capital. Please go ahead.

**Ritesh Shah:** Sir, my first quarter pertains to FlowGuard. If you could provide some color on the distribution and dealer network specifically for FlowGuard given a large part of our portfolio is in agri right now? And secondly, does it stand to the Cash 'n' Carry model that we have at a company level? And lastly, fittings which always has been and outsourced strategy for us does it change post Lubrizol? Thanks.

**Prakash Chhabria:** Thank you. See, first of all, we are not focusing only on FlowGuard that is CPVC. We are focusing totally on non-agri. So, within non-agri there is SWR, ASPN, and also there is FlowGuard. And FlowGuard yes, is a better compound far superior to what we were doing up till now. So, it does give us entry into many places where we have not been especially in projects. As far as dealer network is concerned, yes, we will be looking at setting up parallel distributors in cities where a non-agri dealer would be required. But if look at a location for example, let us say Satara or Nashik, there it might not be necessary to have an independent non-agri product dealer. So, we are doing cherry picking and seeing which dealers are capable of doing both because our dealers are eager, even our agri dealers our eager at doing non-agri products now. So, we are trying to see which is the best optimal way of going ahead. Your last question was regarding Fittings?

**Ritesh Shah:** Yes, sir.

**Prakash Chhabria:** Yes. So, Fittings we still do outsourcing and the reason we do outsourcing is because we find that the range is big and by being able to do it for various vendors we are able to get the best optimal utilization of the assets.

**Ritesh Shah:** But sir, even for FlowGuard compound will it still be outsourced or will it be captive?

**Prakash Chhabria:** The compound is outsourced I mean FlowGuard gives us the compound but the manufacturing is outsourced and the facility for where it is being outsourced has been audited and certified by FlowGuard.

- Ritesh Shah:** Okay, that helps. And sir, for FlowGuard as well, does it still remain on the Cash 'n' Carry model?
- Prakash Chhabria:** Well, as an introductory what we have done only for the FlowGuard product is we have introduced 30-day credit to see how things go ahead because that is what the market has been and as we have in late entrance we thought we will just try it out. So, all our products are still on Cash 'n' Carry model except for FlowGuard products.
- Ritesh Shah:** Okay. But sir, incrementally should we expect this to be status quo or is it likely that the credit days can be reduced or increased?
- Prakash Chhabria:** Frankly speaking, we have done it basically to test the waters and you know instead of doing assumption we thought why not we just make the plunge, try it out, so we are going to observe it for six months and see how things are. And if it helps the business then we should continue then perhaps we will continue. If we find that we can withdraw it, perhaps we will withdraw it but right now we are just testing the market.
- Moderator:** Thank you. We will take the next question from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Couple of questions, sir wanted to know what the revenue loss you witnessed due to demonetization in Q4 and have you seen any significant impact in volumes as volume in quarter four already down by 5% and 8% respectively in your PVC piping and fitting. And also, price hike any in Q4?
- Prakash Chhabria:** Well, the down of about 5% of whatever is the effect of the slowdowns of market in the third quarter. So, which is there but things have picked-up, so at the moment we are back to normal and we really think it has been good, right?
- Umesh Patel:** Right, sir. And any price hike?
- Prakash Chhabria:** Price hike for PVC?
- Umesh Patel:** Yes.
- Prakash Chhabria:** No, not at the moment.
- Umesh Patel:** Not. And what was the spread between PVC, EDC and what is the current market price of both the raw materials?
- Prakash Chhabria:** PVC, EDC spread was 662 and now it is about 635.
- Umesh Patel:** So, it has come down in first quarter from April onwards you mean to say?

- Prakash Chhabria:** Right.
- Umesh Patel:** Okay. And just wanted to know what would be the rate under GST for our company and what is the current structure I mean in terms of Excise and VAT that currently we are paying?
- Prakash Chhabria:** Currently it is close to 18% and we are qualified under 18%. So, it is not a major change for us.
- Umesh Patel:** Okay. So, I mean it is a game of organized and unorganized, right?
- Prakash Chhabria:** Right, exactly.
- Moderator:** Thank you. We will take the next question from the line of Anshuman Atri of Haitong Securities. Please go ahead.
- Anshuman Atri:** My question was regarding demand from non-agri. How are you seeing for the full year? I know there would be quarterly variation but full year and what kind of expansion you are planning apart from these 80-odd Brownfield expansions for the next three years - four years to cater to this non-agri market?
- Prakash Chhabria:** We find the agri market and the non-agri markets to be both very exciting whereas being a dominant player in agri, besides the third quarter otherwise everything had come back online. So, the demand is very high we find the market forces really, they are pulling the product out of the warehouses and it is fantastic. So, non-agri like I said earlier that we are doing different things, we are testing the market, so as a company we are focusing independently on both the verticals and we are giving both the verticals a strong push. So, there is not going to be any laggard both are going to get strong pushes. So, keeping in mind all of this, since last year we have been working on expansion plans because we believe in India's growth story, we believe in the market and most importantly believe in the Finolex brand. So, we are going to be spending about Rs. 300 crores between three years that is last year, this year and next year and may be spill over into the fourth quarter. So, about Rs. 300 crores over three years I would say.
- Anshuman Atri:** And how much we have spent already in 2017?
- Prakash Chhabria:** We have spent about Rs. 60 crores in 2017?
- Anshuman Atri:** Okay. And what is the current capacity of this expansion?
- Prakash Chhabria:** The current expansion capacity is 290 for 31st March. You see in PVC Pipe because it is modular you cannot just choose a date but the financial year is 31st March we have to choose 31st March. Otherwise there is a capacity expansion happening four weeks to eight weeks.

**Anshuman Atri:** Okay. Lastly on various state, so what is the progress in terms of agri based demand and how are you seeing it panning out in the major areas of presence?

**Prakash Chhabria:** Agri based demand like I said earlier is absolutely back on track. The demand from the market, the pull, it is not just the demand, the pull from the market is back to normal as usual during the monsoon time there is a slack in the agri demand which is expected and normal. So, looking at all the predictions on monsoon which is supposed to be fair and which is supposed to be average and which is supposed to be relatively good. I think post monsoon also we will do very good in agri.

**Anshuman Atri:** But sir, I mean the government tenders.

**Prakash Chhabria:** We do not participate and any Government tender. We do not quote to the Government tender.

**Moderator:** Thank you. We will take the next question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

**Basudeb Banerjee:** Few question sir like as somebody asked few questions before about the PVC, EDC spread. So, with its being somewhere around 19% the segmental EBITDA, EBIT margin down from highs of 21.5. So, where do you see a stable margin down the line with the trend of shrinkage of PVC, EDC because significant chunk of your earning anyhow dependent on that itself.

**Prakash Chhabria:** I think from day one we have been maintaining that this is cyclical business, so to have any view on stability is rather impossible and one should not even expect it. So, what we do is optimize on our inventory, we optimize on, we use to early focus on repayment of loan which is now not there. So, things like that is what we try to optimize on adding value change by adding more products. Those kind of things is what we focus on because to be able to tell you or even to even guess what would be the spread in the coming years is rather impossible.

**Basudeb Banerjee:** And sir, like this year while we started the year with an outlook of almost 12% growth for the agri pipe industry and then demon came and things became flat on a full year basis. So, down the line with outlook of monsoon which you said just now. So, do you think that the outlook for 12% sustainable growth from next two years - three years term perspective is doable?

**Prakash Chhabria:** I am very optimist man, I do not believe in 10% - 12% I believe in double-digits. So, I think double-digit is possible and we should be able to achieve it. Barring unforeseen circumstances if something totally changing or something very different happens then, okay. But otherwise, double-digit, yes.

**Basudeb Banerjee:** Sure. And last thing, so there were few media articles recently saying about the toxicity of PVC Pipes from housing application perspective and there are many NGOs who are fighting for that. So, any comments on that angle sir?

- Prakash Chhabria:** No, as an industry we are looking at it, because it is very technical product, it is a very technical quarter, because if you see all this technology which came into India has come from the west, manufacturing of pipes, whether with Lead or whether with tin or with calcium zinc and all the red flags have also come from there that this is good or this is bad. But then the question is that they have also been using it for 50 years. So, are they going to report all the lead pipes from all the existing building, practically it is impossible. So, it is very good that there are watch dogs and one must have watch dogs in all kind of industries. But one should not get alarmed into something which is really unknown.
- Basudeb Banerjee:** I mean that any technological substitution using the similar compound.
- Prakash Chhabria:** There is always technological substitution but (a) whether that itself also will after few years we called as a bad thing because if you change from A to be B after certain years somebody else can then say this is good or this is bad. So, it is moving thing but also then comes the question of workability, can you work with that product? Can you bring that output out? Can you bring a product out? So, there also alternate available and the industry is looking at it and we are aggressively going to follow to see what best can be done.
- Basudeb Banerjee:** Sure, sir. From a base of 2,10,000 ton of piping volume this year and entering into CPVC through Lubrizol. How do you see your CPVC volume this fiscal in FY 2018, sir?
- Prakash Chhabria:** FY 2018, we have very aggressive targets internally for FlowGuard pipe and like I said we have just launched it and we are going through issues of supply because there is good amount of variety of fittings. So, I would like to watch and observe and see what we do in the first six months and then make a commentary.
- Moderator:** Thank you. Our next question is from the line of Sonali Salgaonkar from HDFC Securities. Please go ahead.
- Sonali Salgaonkar:** Sir, my first question with respect to one of your initial commentary that you would like to increase your focus from non-agri from 30% of the business to above 50% of the business over the next four years to five years. So, do we assume that your proportion of Fittings in the overall Pipes and Fittings would increase to that extent?
- Prakash Chhabria:** No, that was basically for the agri, non-agri sector. So, the Fittings within the agri sector and the Fittings within the non-agri complementarily also would grow. So, the growth will continue and will be focused like I said earlier also. On agri and non-agri and along with it the complementing Fittings that are required for that business to grow.
- Sonali Salgaonkar:** Okay. Sir, as a strategy are we focusing more on growing our value-added Fittings proportion....

- Prakash Chhabria:** Yes, definitely.
- Sonali Salgaonkar:** Okay. So, any growth targets that we have or you would like to share at this point in time as to what proportion that might become of our overall PVC Pipes and Fittings volume over say the next three years to four years?
- Prakash Chhabria:** You see, what happens is the PVC Pipes business is so big and is also growing that every time there is a growth in the Fittings business relative to Pipes still there as a small percentage because we are not going to stop focusing on the growth of Pipes you know what I mean?
- Sonali Salgaonkar:** Yes, sir.
- Prakash Chhabria:** So, therefore, to tell you a number is not correct. To tell you that we will keep growing is very correct. Like I said I am optimistic and I love being an optimistic. So, double-digit growth, yes and that double-digit growth includes for Pipes and Fittings.
- Sonali Salgaonkar:** Sure, sir. Sir, my second question is, could we get a break-up of PVC revenue in terms of external sales and captive in FY 2017?
- Prakash Chhabria:** Yes, sure. I will tell Mr. Whabi to just give you the information.
- Anil Whabi:** For the quarter captive consumption of PVC Resin was 40,000 tonnes and external sales was 36,000 tonnes.
- Sonali Salgaonkar:** Okay. Sir, in terms of revenue?
- Anil Whabi:** In terms of revenue, captive was Rs. 288 crores and external was 267 crores.
- Sonali Salgaonkar:** Then for full year FY 2017?
- Anil Whabi:** Yes, for full year the total tonnage for captive was 148,000 tonnes and external sales was 87,000 tonnes.
- Sonali Salgaonkar:** Sorry, full year revenue?
- Anil Whabi:** And full year revenue captive was Rs. 986 crores and external was Rs. 635 crores.
- Sonali Salgaonkar:** Okay. Sir, and just a couple of book keeping questions. Sir, on our working capital cycle now considering that there is a lurch of FlowGuard and except FlowGuard we have everything on Cash 'n' Carry where do you envisage your working capital cycle to become steady state in terms of inventory of payable days?
- Prakash Chhabria:** Sorry to become what?



- Sonali Salgaonkar:** Steady state as in stabilize?
- Prakash Chhabria:** I do not know stabilize as in what?
- Sonali Salgaonkar:** Sir, at what levels do you expect your working capital cycle?
- Prakash Chhabria:** See, Sonali, it may not make much difference because CPVC volumes are very low in our total business. So, it is only in CPVC business as surface that we will be giving some credit. But otherwise the entire business will still beyond Cash 'n' Carry. The percentage of CPVC on the full radar of Finolex Industries is very small.
- Sonali Salgaonkar:** Okay, all right.
- Prakash Chhabria:** So, perhaps in next two years or three years when let us say CPVC becomes a big player then may be that question we will answer that question then.
- Sonali Salgaonkar:** All right. And my last question is, sir our investments could we get a break-up of our investments?
- Prakash Chhabria:** Sorry?
- Sonali Salgaonkar:** Investments, sir our long-term and short-term investments....
- Prakash Chhabria:** See, long-term investments there is no change it is basically because of change in the market price of Finolex Cables that you see higher investment value. But otherwise there is no change.
- Moderator:** Thank you. Our next question is from the line of Manish Patel from Equirus Securities. Please go ahead.
- Manish Patel:** Sir, coming to on the PVC Resin segment this year our spread was historically high, if I look at the last 15 years of data, we have never reported this kind of number. And as you said, you cannot have any view on the commodity for medium-term? Sir, what is happening on the industry side, is the EDC prices are going down what we talked about earlier because the additional capacities are coming up and recently in the month of May we have said the PVC prices is down significantly by around Rs. 5 to Rs. 6, what was the reason for that, sir?
- Prakash Chhabria:** So, your question is first on EDC and the second is on PVC prices.
- Manish Patel:** Yes, sir.
- Prakash Chhabria:** So, EDC prices have been quite steady and low and that is because again what we have been talking for last couple of years and all of this is because of global phenomena started from America because of tracking of gas, so that is basically helping us and it is visible in the last so

many quarters and I think going ahead I continue to believe that is what will happen because there are many people talking about crude prices going down further because replacement of crude in alternative energy as in solar or batteries or electric cars, this like that which is going to keep replacing, so lowering the demand of crude oil and therefore, bring the crude prices down. So, all of that will help, us (a) your question regarding PVC price coming down is basically PVC price in India is a reflection of dollar price plus the dollar rupee price. So, the dollar rupee, the rupee has strengthened in and that has to be reflected in the PVC pricing, that is also there.

**Manish Patel:** I got it. Sir, second question in on your pipe business, as you mentioned that we are looking at Rs. 300 crores CAPEX over the new three years are you setting up any new Greenfield facility part of this Rs. 300 crores CAPEX?

**Prakash Chhabria:** Not, at the moment, it is all within Brownfield.

**Manish Patel:** It is in the Brownfield and I think, I assume that the large part of the CAPEX is for the Pipe segment.

**Prakash Chhabria:** Most of this is for Pipe segment.

**Moderator:** Thank you. Our next question is from the line of Payal Goenka from Ratnabali Capital. Please go ahead.

**Payal Goenka:** Sir, question is regarding the other expenses which has fallen quarter-on-quarter, so sir which component on the other expenses have fallen if you can classify?

**Prakash Chhabria:** It is basically in current quarter the production were slightly low. So, power and fuel come down it is mainly because of that.

**Payal Goenka:** Okay, sir. So, other expenses are more or less, other manufacturing expenses and all.

**Prakash Chhabria:** Yes.

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

**Ritesh Shah:** Sir, you indicated a CAPEX guidance of Rs. 300 crores over 2017, 2018, 2019, would you like to put on a capacity number, so should one assume incrementally say we had a target of say like 30 KT per year corresponding to Rs. 30 crores. Sir, how should one look at it?

**Prakash Chhabria:** 30 KT yes, but also see what happens is when you exclude CPVC in the form of a pipe or you do injection of CPVC for fitting, the equipment is much more expensive and the output of a CPVC is much less than of a UPVC in tonnage. So, therefore to give you a number on exact

capacity increase at the moment is not going to be fair. But usually we have been growing at Rs. 30 crores to Rs. 50 crores at 30,000 tonnes but this time the emphasize is being more on CPVC therefore, it is a little bit skewed and our focus on Fittings.

**Ritesh Shah:** Okay. So, sir incrementally if not for say 30 KT if one had to break it up between PVC and say FlowGuard related capacity CPVC capacities. Sir, how are you looking into it say in FY 2019 or FY 2020 what is the mix that we are looking at.

**Prakash Chhabria:** See, overall we should achieve more than 150,000 tonnes of capacity increase but the full increase benefit in a financial year would come in FY 2020. So, if want to look at a full financial year benefit would be in FY 2020.

**Ritesh Shah:** Okay. Sir, would you like to put on a number on capacity, sorry I am just repeating it.

**Prakash Chhabria:** I just told you about 150,000 tonnes.

**Ritesh Shah:** Okay, that is till 2020, right?

**Prakash Chhabria:** Yes, the full benefit of that 150 you will see visible in FY 2020.

**Ritesh Shah:** Okay. Sir, my second question is on working capital, on a year-on-year basis it has increased substantially mainly driven by inventory days. So, I understand last year it was low but how should look at it on a year-on-year basis.

**Prakash Chhabria:** The inventory was higher this year basically because of low dispatches during the third quarter and the dispatch has picked-up during the middle of fourth quarter. So, therefore, there was higher inventory of PVC basically.

**Ritesh Shah:** Okay. Sir, should one assume say 35 days adjusted for FlowGuard, 30 days of credit as the new normal on the working capital?

**Prakash Chhabria:** 30 days on FlowGuard not on anything else.

**Ritesh Shah:** Sir, our company level working capital is roughly 33 days inventory receivable and payable days.

**Prakash Chhabria:** But again, that depends on you know because we have a monsoon closure. So, if you look at it that way it will not reflect a correct thing for you. Because there are certain times when there will be higher inventory in March of EDC, Ethylene, because the ships came in early. So, if you track that I do not think you will really get a fair picture of anything. Basically, what the company says and maintains is that we do not have any long-term debt, we only have working capital requirement. We are going to do all our expansion through internal generation and the

credit limit which will be given is basically going to be only for FlowGuard Pipes and Fittings nothing else.

**Ritesh Shah:** Okay, that helps. Sir, secondly, were there any one-offs either from electricity subsidy or anything else during the quarter?

**Prakash Chhabria:** Anil.

**Anil Whabi:** You see for our earlier expansion in Ratnagiri, we have received grant. So, I earlier quarters, our contention was that this is a capital receipt. So, we had taken into capital reserve but in view of this accounting standard IndAS 20. In the current quarter, we thought an opinion from government also but we did not get any reply. So, now we have taken into profit and loss account in line with AS 20 and that amount for the FY 2017 is Rs. 13 crores in the entire year and while FY 2016 that is Rs. 29 crores.

**Ritesh Shah:** And sir, for Q4 FY 2017?

**Anil Whabi:** Yes, Q4 that amount is about Rs. 5 crores.

**Ritesh Shah:** Around Rs. 5 crores that helps. And sir, my last question, sir, last time I think you indicated number of SKUs at around 1,500. So, how has the progress been on a year-on-year basis and how do you see this going forward? And specifically, if you could provide some color related to Fittings and Pipes specifically to FlowGuard as well and that will be helpful, sir.

**Prakash Chhabria:** See, total SKUs as we mentioned interest the last call also it is about 1,500 compared to the 1,400 that we had last year which includes Pipes and Fittings, Fittings would be about 1,000 SKUs and 500 SKUs for Pipes.

**Ritesh Shah:** Okay. And sir, how do we plan to ramp this thing up going forward?

**Anil Whabi:** So, obviously this will keep on going you in both Pipes and Fittings segment.

**Prakash Chhabria:** Ramp it up like I mentioned it is not a one-off, so it is always adding-on, adding-on, adding-on and that is what we are doing, that is what Mr. Whabi is trying to say that we keep adding capacities because this is modular. If it was like a PVC plant where you set up capacity and you go into trials and commercial production overnight then it is a different thing. But because this is modular production keeps on adding on whether it is Pipes or Fittings.

**Moderator:** Thank you. We will take our next question from the line of Chintan Sheth from Samiksha Capital Please go ahead.

**Chintan Sheth:** Sir, when you say you are adding 150 KTP by FY 2020, so cumulatively we are looking at around 450,000 KTP of cumulative capacity?

- Prakash Chhabria:** Production capacity that is right.
- Chintan Sheth:** Right. Yes, what will be the CPVC in that entire range may be 50 KTPA or no?
- Prakash Chhabria:** By 2020, yes.
- Chintan Sheth:** 50 KTPA, we can take that, right?
- Prakash Chhabria:** Yes, we should. Things going in our favor, yes.
- Chintan Sheth:** Okay. Sir, on the internal and external sales of PVC Resin with the capacity we are adding on in the PVC Piping side, do we expect by FY 2020 or FY 2022 that the entire PVC Resin capacity will be internally consumed and there would not be any....
- Prakash Chhabria:** Why not, are already doing that.
- Chintan Sheth:** Yes, 50% I think it is standing right now.
- Prakash Chhabria:** No, not 50% it is more than 50%, please remember there is 20,000 to 22,000 base PVC that 20,000 cannot be used in Pipes anyway. So, keeping that effect we are already consuming all of it. So, there is nothing big about that.
- Chintan Sheth:** So, how much external sales will continue that is what I am looking at.
- Prakash Chhabria:** The external sales is only a question of arbitrage.
- Chintan Sheth:** So, currently we are doing some Rs. 670 odd crores in FY 2017, do we see gradually going down say minuscule Rs. 100 crores to Rs. 200 crores?
- Prakash Chhabria:** No, something like that.
- Chintan Sheth:** Rs. 100 crores - Rs. 200 crores by FY 2020?
- Prakash Chhabria:** Yes.
- Chintan Sheth:** And lastly, on the agri, non-agri market size, we are currently under agri we have a very significant market share. Post GST what are our plans in ramping up the market share in both agri and non-agri any comment on how are we planning to expand our market share?
- Prakash Chhabria:** No, that is why I told you we have an aggressive CAPEX that itself is answer before your question.

- Chintan Sheth:** Okay. And the demand in the market is still growing strong. So, cumulatively we will stay at a current level or we are expecting to increase further because base market is also growing likewise your capacities are also growing?
- Prakash Chhabria:** Yes, so that is why we are saying we are going to grow. We are focusing on growth we will always grow.
- Moderator:** Thank you. The next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.
- Akshit Gandhi:** One question from my side, if I understand correctly, the gross debt on our books is roughly around Rs. 90 crores is that, right?
- Prakash Chhabria:** Yes.
- Akshit Gandhi:** And what would be the cash and cash equivalents on the books as on March 31st?
- Prakash Chhabria:** About Rs. 55 crores.
- Akshit Gandhi:** Okay, all right. And one question on the CPVC side the Pipes and Fittings which we have launched versus let us say the market leaders Astral. So, are our Pipes and Fittings at a premium to their retail pricing or is that similar pricing, how is that just to understand?
- Prakash Chhabria:** Premium.
- Moderator:** Thank you. We will take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Firstly, the year which has gone by, could you please sum up what were the factors that aided to this kind of numbers and how do you see the continuity of these factors going forward? Just to understand our growth story being intact and what are the variables in that?
- Prakash Chhabria:** Margins have improved basically because of raw material pricing.
- Saket Kapoor:** Okay. Sir, the point I am trying to one more is our agreement with Lubrizol for the CPVC part, does it rule out the one which we were planning for DCW. I don't think they have been able to commercial operation of their unit. So, is it the talk which we are doing with them now on a hold or we are still talking to them?
- Prakash Chhabria:** Obviously, Finolex FlowGuard is a long-term proposal, so if two people are together then it is going to be long-term proposal. We will strive hard to make this a success and continue making a success for the longest time ever.

- Moderator:** Thank you. We will take the next question from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Sir, wanted to know what is the commitment that we have given to FlowGuard to procure I mean CPVC compound for FY 2018?
- Prakash Chhabria:** Okay, commitment as in?
- Umesh Patel:** I mean for the FlowGuard as a raw material usage in FY 2018 for manufacturing CPVC.
- Prakash Chhabria:** Yes, so our commitment is that we will buy 100% only from them and nobody else and we will manufacture it ourselves.
- Umesh Patel:** Yes, okay. And secondly, sir, you mentioned in your earlier remarks regarding the contribution of Fitting would definitely, what I understand is I mean as of now your contribution from the PVC Pipes and Fittings is something around in the range of 8% to 10% or sometimes it ranges around 11% to 12%. But what I understand, I mean once we will start full-fledged manufacturing of CPVC Resin where the contribution of Fittings, in terms of usage is much more higher.
- Prakash Chhabria:** You are absolutely, Umesh.
- Umesh Patel:** And you mentioned the non-agri contribution in the next three years would go up to 50% which is something around 30%. So, I just wanted to understand, sir where we see the Fitting contribution to overall PVC Piping segment to move in the next three years from 8% to 10% and where we see the margins, and CPVC fitting margin generates around 25% to 30%, right?
- Prakash Chhabria:** Umesh, you are absolutely correct. But to give you a better perspective, do not look at it only as CPVC, you should look at it as agri and non-agri.
- Umesh Patel:** Right.
- Prakash Chhabria:** In agri, the Fitting contribution or the Fitting sale not contribute, the fitting sale as a percentage is lower versus compared to Fitting sales in non-agri. Now, as I have been mentioning up till now, as we are now focusing more and more on non-agri by introducing newer products and fitting by having kind of a Lubrizol which like I mentioned earlier it has just opened up newer doors and all of this put together, yes we will obviously give weightage to Fittings as a bigger number as compared to last year than the coming year. So, it is obvious, what you are saying is absolutely correct.
- Umesh Patel:** Okay, I got your point sir. Secondly, sir, you mentioned as we generally carry, Cash 'n' Carry model for PVC Pipes and Fittings, we generally do most of these things in that way I mean

there are many players I mean in CPVC competition is huge actually our pricing would be higher as you mentioned earlier. Then in that case do not you think so that Cash 'n' Carry model would not work in favor of us and we have to give some credit extension period particularly to CPVC distributors or dealers....

- Prakash Chhabria:** Umesh, did you join the call late?
- Umesh Patel:** No, sir, I was there.
- Prakash Chhabria:** Then I have said in the beginning that we are giving 30 days for FlowGuard.
- Umesh Patel:** Right, okay.
- Moderator:** Thank you. Our next question is from the line of Sonali Salgaonkar from HDFC Securities. Please go ahead.
- Sonali Salgaonkar:** Just one bookkeeping question from my side. Sir, could we get the absolute Excise Duty numbers for FY 2017 and Q4 FY 2017?
- Prakash Chhabria:** Anil?
- Anil Whabi:** See, total number for the company for Q4 without Excise is Rs. 888 crores and for the full year it is Rs. 2,602 crores.
- Sonali Salgaonkar:** Rs. 2,602 crores. Sir and comparable numbers?
- Anil Whabi:** Comparable number last year PVC was without Excise Duty, the numbers which were published.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** A few questions. One, what was the quantum of tonnage of external PVC purchase this year?
- Prakash Chhabria:** About 35,000 tonnes.
- Basudeb Banerjee:** 35,000 tonnes.
- Prakash Chhabria:** You see, we have a plant at Masar, so there we prefer to buy rather than transporting from our Ratnagiri plant.
- Basudeb Banerjee:** Second thing sir, more from an industry perspective just wanted to understand as you are entering the CPVC segment, in urban or metro markets with the premium billings or relatively



the higher cost real estate people are ready to pay the premium of CPVC for their Housing Piping requirement. And how do you see that trending in the Tier-II or towns down the line where paying such huge premium for CPVC has not been the case till date but down the line, how do you see that trending per se are people ready to pay that extra premium for CPVC Housing Pipes?

**Prakash Chhabria:** Yes, definitely because you see everybody has an aspiration. So, person in the village is looking at a small town for aspiration. The person in a town is looking up for a small city for aspiration. The person in the small city comes to Bombay for aspiration. So, everybody is for aspiration. So, it is moving, that awareness is coming, that awareness is growing.

**Basudeb Banerjee:** But just from a Washroom piping do you see that aspiration aspect getting tangible?

**Prakash Chhabria:** Yes because of the usability, no? Earlier they would not have a greaser now they have a greaser, if they have a greaser you need a pipe which can carry hot water. In earlier days everybody use to take cold water bath. You would wake up in the morning at 6 o'clock in winter or in summer you still take a cold water bath. Today nobody says that, today everybody says we got a greaser. So, as soon as you say you have greaser that means you have requirement of pipe end of story.

**Basudeb Banerjee:** And sir, last question sir, like yourself being a very established brand in the agri pipe space 70% of business coming from that segment. Now, to establish your brand that to at a premium to the market leader, what kind of special marketing or branding strategies you are planning or any major expense on brand ambassador or anything in that angle sir?

**Prakash Chhabria:** No, we do not have any brand ambassador or anything of that and we do not require that. But we are doing a lot of ground work where we have got training for plumbers, dealers, retailers, sales man, so there are a lot of activities going on and you will see the effect of that in the next coming years.

**Moderator:** Thank you. Our next question is from the line of Rahul Agarwal from ICICI Prudential Life Insurance. Please go ahead.

**Rahul Agarwal:** Sir, just a couple of questions on distribution. So, how much of dealer additions happened this year?

**Prakash Chhabria:** About 100.

**Rahul Agarwal:** And this is on the base of?

**Prakash Chhabria:** Base of means?

- Rahul Agarwal:** What was it previous year as an absolute number?
- Prakash Chhabria:** 700 to 800.
- Rahul Agarwal:** Okay, 700 to 800. And going forward as you increase your CPVC and everything, how exactly it is going to trend?
- Prakash Chhabria:** We will keep adding as per the market requirement like I mentioned earlier.
- Rahul Agarwal:** So, what is our geographical mix if you can share that?
- Prakash Chhabria:** Geographically we are present in all the states of the country right from Kashmir to Andaman and Nicobar, Kanyakumari, Seven Sisters in the East, we are pan India.
- Rahul Agarwal:** But sir, which is our dominant regions?
- Prakash Chhabria:** Dominant regions, so dominant regions I would say basically the four Southern states, Maharashtra, Gujarat, Madhya Pradesh, these are main dominant states.
- Rahul Agarwal:** How much would these be actually contributing to the overall sales?
- Prakash Chhabria:** More than 70%.
- Rahul Agarwal:** So, these four states actually contribute more than 70%.
- Prakash Chhabria:** I said four southern states plus Maharashtra and Gujarat.
- Rahul Agarwal:** Okay. Great. And is there any other strategy in respect of countering different geographies for CPVC as well as in others.
- Prakash Chhabria:** Yes, we are working on it and that is why we are growing.
- Rahul Agarwal:** Okay. So, what was our advertising cost last year?
- Prakash Chhabria:** About 1%.
- Rahul Agarwal:** And how should we expect it to trend?
- Prakash Chhabria:** Similar, I think because we do a lot of ground activities more than being in National Television or anything.
- Rahul Agarwal:** So, that is the thing sir, Astral with all its market and Supreme also with the CPVC and every other product the kind of brand recognition has been created around celebrities and otherwise,

you think that the only on-the-ground and all that without any customer pull activities would that really be helpful.

**Prakash Chhabria:** At the moment yes, I think we are on the correct direction. But again, time will only tell. And in case, we find that we are on wrong track perhaps we will have to change the strategy.

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

**Ritesh Shah:** Hi, sir, a couple of questions. Sir, what is our pricing policy specifically for Finolex FlowGuard, is it like on a fortnightly basis or on a monthly basis?

**Prakash Chhabria:** CPVC pricing is much stable so it continues unless there is a massive change in the CPVC pricing, it is not like UPVC.

**Ritesh Shah:** Okay. And sir, let me put it the other way. So, what is the frequency for price changes that Lubrizol is it every three months, six months, how should one look at it?

**Prakash Chhabria:** I think Lubrizol price like we are new working with Lubrizol. But what I understand is the last price change date it was perhaps in last year May and June and then now again. So, quite stable.

**Ritesh Shah:** Okay. And sir, what is the quantum of inventory of Lubrizol compound that we would maintain so how should one look at it?

**Prakash Chhabria:** Lubrizol compound inventory, I do not understand it is not relevant to anything.

**Ritesh Shah:** Sir, I am just looking at from a pricing point of view if Lubrizol decides to cut its price by 10% one goes then is there a risk to the inventory which could be actually high stocked.

**Prakash Chhabria:** We have much bigger risks in PVC, EDC, ethylene, VCM. Lubrizol will do what?

**Ritesh Shah:** Okay. But sir, still how do you look at the scenario, say if Lubrizol had to cut prices one goes or if it increases obviously....

**Prakash Chhabria:** I think, Lubrizol is a very respectable, decent, global and trustworthy company. So, they will work their partner more than doing any shock treatment.

**Ritesh Shah:** Okay. That helps. Sir, secondly on the distribution side, sir any specific update on the warehouses, any new warehouses specifically post-GST how are you looking at things?

- Prakash Chhabria:** No, nothing yet. We are now just going to wait to see how GST rolls-out, pans-out and then spend more money on warehouses, right now we are just maintaining the three that we have got.
- Ritesh Shah:** Okay. And sir, lastly on the CPVC side, how do you see things, given we are in a very good position given we are 70% agri and we are a household name specifically in rural areas. Sir, how do you see this? Actually, we are in a unique opportunity to cross sell CPVC, so do you see this as a big opportunity as compared to rural areas. What is our approach over here, sir?
- Prakash Chhabria:** I think you have hit the nail on the head. Being such a powerful brand in the rural areas and looking like I mentioned about aspiration for people, as people are getting into more and more modern way of living. People who are living in huts look at wanting to live in concrete houses instead continuing live in huts. People bathing in cold water looking at hot water, therefore requirement of people and Finolex brand being so strong in rural, we automatically have a very strong foothold in the rural parts of the country. And therefore, we think we will do good and that is why we are saying that our future is very bright.
- Ritesh Shah:** Okay. Sir, just to take this forward in the prior question, you indicated that we have added 100 dealers it takes the count to 100, sir what will be the broad split between rural and urban and how do you see this going forward.
- Prakash Chhabria:** Broad split between the urban and rural I would say 50-50 and going forward again, we keep working in each state, each city, so it is not that we will only for north or we will plan only for the east, we are always working pan India and we keep looking at growth opportunities across the country. So, there are places you will find that may be certain dealers have not done good, so they have been moved out and they have been replaced with some different dealers, so maybe it is a same city but a new dealer has come in.
- Ritesh Shah:** Okay, sir last question. Does our product quality for Affordable Housing? Is it based on price points?
- Prakash Chhabria:** Affordable Housing is for a product, it is nothing to do with pricing. If your price is acceptable for Affordable Housing by the builder then he is going to buy it. I do not think there is any litmus test or anything like that.
- Moderator:** Thank you. Our next question is from the line of Payal Goenka from Ratnabali Capital. Please go ahead.
- Payal Goenka:** Sir, one question, sir, can you throw some light on our Finolex Plasson, our micro irrigation company how it is shaping up and what are the future plans and turnover as and as in financial year 2016 - 2017?

- Anil Whabi:** See, FY 2017 the turnover that they achieved was almost flat, it was Rs. 300 crores about same level of turnover. PAT also last year it was about Rs. 14 crores and FY 2017 also about Rs. 13 crores. Going forward it has good growth potential, so should grow as the micro irrigation thrust is given by the government.
- Payal Goenka:** Sir, what is the CAPEX plan going ahead in this micro irrigation company and any separate marketing strategy we are looking at?
- Anil Whabi:** Are you asking of Plasson?
- Payal Goenka:** Plasson, correct, sir.
- Anil Whabi:** See, there is no large CAPEX for Plasson and of course, marketing they also have dealer spread across India and they are also adding dealers, so should continue to do well and grow.
- Moderator:** Thank you. Our next question is from the line of Chintan Sheth from Samiksha Capital. Please go ahead.
- Chintan Sheth:** Sir, coming back that on the external sales, internal sales of PVC, we have a very stable margin in the PVC piping business and volatile margin in the PVC Resin business because of the commodity nature of the business. So, when the proportion of that business comes down then the stability in the margin will start reflecting as a piping company all together, right that is the correct understanding?
- Anil Whabi:** No, today also when we transfer Resin to our pipe segment. It is transferred at market pipe. So, volatility would still be there. But as we grow more in the pipe segment the effect of that volatility will keep on diminishing.
- Chintan Sheth:** Correct. When the revenue from the Resin external revenue from the Resin, so we continue the reporting of the segmental as it is even if the revenue contribution external revenue contribution becomes minuscule?
- Anil Whabi:** No, when it becomes minuscule and if we can then it will only one segment.
- Chintan Sheth:** Right, that is what and then the margins will look like more stable and steady I think barring the commodity volatility in the price because we tend to move the price of the piping business according to the PVC Resin price, right?
- Prakash Chhabria:** Correct, absolutely.
- Chintan Sheth:** So, we keep meeting in the similar spread between the Piping and Resin?
- Prakash Chhabria:** Correct.

- Chintan Sheth:** Okay. In Plasson our target was around some Rs. 1,000 crores which we can do, so what was the timeline for the same?
- Prakash Chhabria:** Target was Rs. 1,000 crores when?
- Chintan Sheth:** We have a potential to grow the business from...
- Prakash Chhabria:** No, potential is very big. I think going ahead there are many states which are focusing on drip irrigation, micro irrigation, and potential is growing up and if you look at that business regardless of just profit and everything, technically that product is very sound, it is very good and it is absolutely the correctest thing that India should do.
- Chintan Sheth:** Okay. So, this business do cater to the government tendering we continue like in our PVC pipe like directly approaching the farmers and dealers.
- Prakash Chhabria:** Blend of both.
- Chintan Sheth:** Blend of both, okay.
- Moderator:** Thank you. Our next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Sir, my question is regarding this Lubrizol deal, are we contractually obliged to have a minimum offtake as per that deal?
- Prakash Chhabria:** No, the only thing is that we have to buy 100% and which we are happy to do.
- Vipul Shah:** Okay, means we have to buy 100% from them no other supplier, that is the only string attached, right?
- Prakash Chhabria:** It is not a string, it is an advantage to us.
- Vipul Shah:** Means they cannot supply to anybody else?
- Prakash Chhabria:** No, we are more than happy to buy their product, so we are very happy to work with them. Technically, that product is very superior, you must understand, Lubrizol is the company which invented CPVC 50 years ago and they have been doing a lot of research which cannot be captured over night, they have spent, money, they have spent time and what they produce today is fantastic product. So, we are very happy to work with them and it is a good thing.
- Vipul Shah:** Okay. But they can supply to other manufacturers.
- Prakash Chhabria:** They could supply manufacturers if people do not perform, I would also do the same thing.

**Moderator:** Thank you. Ladies and gentlemen, that was our last question. I now hand the conference back to Mr. Ritesh Shah for closing comments. Over to you, sir.

**Ritesh Shah:** Thank you, management for giving us the opportunity to host this conference call. Mr. Prakash, any last conducting comments please?

**Prakash Chhabria:** Thank you. Thank you very much to everybody.

**Ritesh Shah:** Thank you so much.

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