



“Finolex Industries Limited
Q2 FY2022 Earnings Conference Call”

November 01, 2021



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Moderator: Ladies and Gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Finolex Industries Limited hosted by Investor 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 “0” on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah, Head Mid-Market coverage, and ESG at Investec India. Thank you and over to you Sir!

Ritesh Shah: Thank you, Rutuja. Thank you with pleasure. Thank you all for joining Finolex quarterly call. We have with us, Mr. Sanjay Math, Managing Director, and Mr. Anil Whabi, Director Finance and Mr. Niraj Kedia, Deputy CFO with us for the call. I would request Math Sir to start with the initial comments, post which we will have a Q&A session. Over and thank you so much, Sir.

Sanjay S. Math: Thank you Ritesh. Good morning to all of you. I welcome you all here to the Investor conference call to discuss the Q2 FY2022 Earnings. Thank you for your continued interest in Finolex Industries Limited. The company has once again reported robust set of financial numbers. PVC prices are continued to be at all time high. The demand scenario is also good, which is a positive sign for further market. There has been outstanding improvement in all of our operating parameters.

Let me give you some performance indicators for the Q2 of the financial year 2022. So the highlights: The total income from operation was Rs.182.95 Crores for quarter FY2022, up by 84.9% against Rs.585.55 Crores in Q2 21. Volume in pipe and fitting segment grew by 27% to 55453 metric tonnes in Q2 FY2022 against 43618 metric tonnes in Q2 FY2021.

EBITDA stood at Rs.301 Crores for Q2 FY2022 up by 108% against Rs.144.76 Crores for Q2 21. Profit after tax is at Rs.235 Crores for Q2 FY2022 up by 96.4% against Rs.119.72 Crores for Q2 21.

Half yearly income, 2048 Crores up by 79% from 1147 Crores, last year and profit after tax for the half year is 381 Crores, up by 118% from 175 Crores last year.

Now, getting into segmental performance, EBIT in the resin segment was 311 Crores, up by 133%, last year, and EBIT for pipe and fitting segment is 57 Crores, up by 46% last year. We have a net cash surplus of Rs.916 Crores as of September 30, 2021.

Now, let me leave the floor open for the question. I have here with me our finance team, Mr. Anil Whabi, and Mr. Niraj Kedia, who will answer the questions on data related issues and financial issues. So thank you gentlemen, let us go for the question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Good morning and congratulations for a great set of number. So I have three questions, firstly, to start with, could you give some more colour as in what really happened in the quarter in terms of execution? For example, agri mix, fitting mix is obviously much better versus if I compare it last three years in same quarter south and west recovery post COVID CPVC. Overall, what did you feel about your execution versus our own expectation and what went in your favor? That is first question, Sir.

Niraj Kedia: Rahul, good morning. So, from execution perspective, if you see Q2, I am talking about pipes and fitting this has been the first time in the history of the company, where Q2 numbers in terms of volumes have more or less been in line or equal to Q1 numbers, historically if you see, Q2 is generally a peak quarter, because of the monsoons, the pipe laying activities lesser in the farms and even construction activities lower, but this year, with around 53000 tonnes we are almost neck-to-neck with Q1. So that way, from an execution perspective, I do not know how much you put in an exhibition and demand. But so this has been slightly better than our own expectation. We were hoping for a higher volume any which ways, but this has been good. In terms of fittings, you already said, the ratio has been better even in terms of agri, non-agri, because of the lower season for agri products, the ratio of non-agri has been in fact, more improved. It is almost 40% this quarter.

Sanjay S. Math: I think I can give you a break up on agri, non-agri, year-on-year 58 by 42, so 58 agri and on agri 42 for quarter FY2022.

Rahul Agarwal: Got it Sir, and how about CPVC, and south and west market, did that contribute much higher this time around?

Sanjay S. Math: CPVC has done well this time. I think CPVC growth is about quarter-on-quarter was 50%, but on year-on-year here was 77%. Last year was a pandemic here. So Q1 and Q2 was pandemic more. So the growth on CPVC on year-on-year is 77, but quarter one to quarter two, we are 50%.

Rahul Agarwal: That in terms of volume, right?

- Sanjay S. Math:** That in terms of volume.
- Rahul Agarwal:** Sir, second question was on inventory gain. Could you help with some number, was there any inventory gain at all?
- Sanjay S. Math:** Not really, we did not have much inventory gains. See, if you see the resin prices actually, see in June, they were down actually; when we last spoke, they had started going down, and August, September, October, these three months, the PVC price are almost Rs.40, but in our case, we do not have much of inventory gains, because anyway we carry lesser inventory. In resin, yes, there is a bit of inventory gain, but in pipes and fitting, not really.
- Rahul Agarwal:** I understand pipes obviously you carry low inventory but I was referring to resin segment only?
- Sanjay S. Math:** Yes, there is, there is a marginal inventory gain in resin.
- Rahul Agarwal:** Okay Sir, could you quantify that?
- Sanjay S. Math:** It is difficult to quantify.
- Rahul Agarwal:** Okay, and last, I was referring to your balance sheet, the other current liabilities have shot up, March over September it is about 600 Crores versus 340 Crores in March any specific reason for this?
- Niraj Kedia:** No, there is no specific reason, I mean, these are just normal working up to cycles, they keep going up and down. So there is no specific reason as such.
- Rahul Agarwal:** Thank you, so much and Happy Diwali to all the Finolex team. Thank you, all the best.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.
- Praveen Sahay:** Yes, thank you for taking my question. Sir can you give the numbers for the average numbers for the PVC, Resin EDC, Ethylene, and VCM?
- Anil V. Whabi:** For Q2, average PVC was 1514, EDC was 724, Ethylene was 985 and VCM was 1123.
- Praveen Sahay:** Okay. So, just if I look at last quarter Q1 to Q2, the spread has gone down, and even on the indices, if I look at the PVC or EDC, the spread is going down, how that is affecting the business?

- Anil V. Whabi:** Spread has not moved much during Q1 to Q2 right that is what you are saying?
- Praveen Sahay:** Okay, got it, and if you can give also the CPVC numbers? Sales number, and the volume number?
- Sanjay S. Math:** PVC number, PVC was 55,458.
- Niraj Kedia:** Mr. Math, he is asking for CPVC. So CPVC was roughly 3600 tonnes.
- Praveen Sahay:** Sales number for that.
- Niraj Kedia:** Roughly 350 Crores.
- Praveen Sahay:** Sorry, say again that.
- Niraj Kedia:** Roughly 125 Crores for the quarter.
- Praveen Sahay:** On the volume side, because this quarter, the volume significant improvement, do we believe that after two season of a lull period for our agri pipes some kind of a pickup will we see with the PVC coming?
- Niraj Kedia:** So there are both aspects to it. One aspect is that because of high PVC prices, there is a deterrent, because it is a major capex for the farmers. so we are seeing some resistance from the farmers to do major capex, where they are doing some patch work here and there and they are deferring the decisions to do that capex, but at the same time, there is one set of another farmers, who have already deferred this decision by quite a bit. Now, we almost one and a half years since the lockdown started last year, so they are both aspects to it. So there is some demand pull from the guys who have deferred it beyond a point, which we cannot contain. And there is deferral from another set of people, you know, who are finding it too expensive right now.
- Praveen Sahay:** 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 Shrenik Bachhawat from JM Financial. Please go ahead.
- Shrenik Bachhawat:** Thanks for the opportunity. Sir, I wanted to understand your view on when do you think that the global supplies for PVC will abate? That is my first question, and my second

question is that as we have around 900 Crores of cash, how do we plan to allocate that? What is the capital allocation of strategy going ahead?

Sanjay S. Math: Let me understand your first question on supply for PVC, what is it?

Shrenik Bachhawat: Sir, when do you think that the global supplies for PVC resin will stop and the PVC resin prices will normalize?

Sanjay S. Math: At present still there is a supply constraint on PVC and there is a very limited international trade that is happening on PVC. Demand for PVC in India is good and that is why the prices of PVC in India are much higher compared to even other places, Indian market is definitely on a higher side. Going ahead, how this will unfold is still a question mark; I think there is pandemic in Europe, still going on. I think the recovery is possible in China because they have opened up now for the carbide route, so when China is full on carbide route, and the PVC available there is there, then possibly the prices may start cooling down and Supply will be available. I think that is how we look at it.

Shrenik Bachhawat: Yes, Mr. Math, we lost you a bit there.

Sanjay S. Math: I was talking about this PVC market, the global trade, as you know is still restricted. Going ahead, it may improve basically because China is opening up on carbide route. I think the coal supplies are released for carbide and that may improve the position in China and their prices in China are supposed to be cooling down now. I think you can see the trend is coming down there. At the same time, Chinese material is still not there in the market and maybe in time to come, maybe next quarter time. There will be some cooling expected.

Shrenik Bachhawat: So, what is the plan about cash allocation going ahead?

Anil V. Whabi: As we have been saying, we do not intend to keep large cash on our balance sheet. So, as the time comes, we will have some plans but nothing right now. So no large cash balance will be kept for a long time on the balance sheet.

Shrenik Bachhawat: Sure Sir, and sorry to repeat the question. Could you please give the PVC average prices for the quarter?

Sanjay S. Math: I think, he gave you the prices, PVC price for the quarter 1514 is average, EDC price 724, ethylene 985, VCM 1123, the spread between PVC to EDC 790, and PVC to VCM 391.

Shrenik Bachhawat: Thank you so much.

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

Ritesh Shah: Thanks you for the opportunity. Sir, first can you provide some color on EDC, ethylene and VCM, basically the sourcing or the comfort that we have on sourcing for these three raw materials and also on the resin production was lower on a sequential basis, was it because of a raw material issue or was it a plant shut down? How should one understand that? Thanks.

Sanjay S. Math: I think, you may know that we have contractual agreements for EDC as well as VCM supplies. So our EDC route supplies are contracted with most of the Middle East producers unless they have a problem in their own plants, I think the supplies are normal. This year there was a shut down possibly all of you know that QVC as well as SABIC has its shut down going on and they have disrupted but we have covered our supplies on EDC as well as for this quarter and there are some other suppliers we are tied up. So alternate supplies have been made and there is availability of both EDC, as well as VCM. So our PVC production from EDC route as well as from VCM will continue to operate. Now, your question about the last quarter, there was in the middle of May rather, on 16th of May, there was a cyclone which was called the Tauktae cyclone, passed through the Western coast of India. The last ship of ethylene was canceled only because of this cyclonic condition and that put down our supplies for EDC route. Normally, we do not operate VCM route during the monsoon and that is why, you may see a drop in our PVC production. Because VCM is closed down, as well as the EDC route was short supplied on ethylene and so you have seen this drop in our PVC production.

Ritesh Shah: That is very useful.

Anil V. Whabi: Plus generally we have a plant shut down in the third quarter, this year, because of the breakdown. We might push that plant bit also earlier. So there was a bigger gap but this plant shut which was earlier for Q3 now that will not happen. So there will be some offset there.

Ritesh Shah: That is quite comforting. Thank you so much. My second question is Sir, how one should reflect on the resin prices. You indicated, it was \$1549 for the quarter, what we understand is, in China there have been gaps on coal pricing and because of that, as you indicated, most of the production is via carbide route, so the cost of overhead will come down. So do you expect some softness in resin pricing? And if I have to break this question a further, do you think this is the problem on back of supply or is it a back of on back of freight issues? How should one understand it? So if it is \$1549, is it possible for you to break it up the freight cost and the FOB charges, just trying to get some sense on where it can actually normalize? Thanks.

Sanjay S. Math:

Ritesh let us understand this business in some other way. Prices are also reflected on the raw material prices. So the delta normally is maintained between PVC to VCM as well as PVC to EDC. At present, when the prices are going up, the prices for the raw material supplies also go up. So the question is not the per se, what is the resin price or the future price? How much is the delta that will create the business sense and that delta normally is the business for the suppliers as well as the consumers and the delta is normally maintained. Sometimes you will get to the higher delta because there is a phase lag, but sometimes you may be seeing that when the prices start cooling down, possibly this delta may come down, but it will finally settle down to a level that it is useful for the PVC producers also, that is one part. The second part is on the coal. Coal prices, if you have seen, before they monsoon there were around \$50, today they are going up to about \$120, 130. Now this is the price change that has happened on coal. That is not that the coal prices have been capped. It is the international coal prices way high than what they were last year. To some extent, those who have got coal available internally, they may keep the coal prices for their own suppliers. So domestically China may try to give coal at a price which is not at the international price. But at the same time, it may not be so reflective that whether that price is going to bring down to a very large extent the PVC prices. As such carbide route is high energy consuming, as well as, it is definitely costlier than the normal ethylene route. So how that will reflect in a longer-term and what he will be the parity of ethylene route versus the carbide route that only some time will tell us. To some extent, the availability of PVC will be more in China. So there will not be a PVC trade which is coming from North Eastern Asia, going to China which will possibly be diverted somewhere else so the availability coming to India maybe little higher. The cooling down will depend upon present supply conditions. At present, it is a supply constraint, which is increasing the prices in India. So if the supply improves, that possibly will change the pricing mechanism at the same time when the prices of PVC cool, the delta also will start moving down, but it will be a temporary base. The equilibrium will be immediately restored to the level that the PVC producers also have the similar margins, which are there, which will be at a long-term margin of the average of last five years sale.

Ritesh Shah:

Sure, Sir, last question. Is there any shortage of PVC or CPVC in the local markets based on our understanding when we interact with the market, we understand even the larger players, and they are suffocated on CPVC volumes? In fact, a few large players have actually even taken shut down. So how are we placed? I think PVC will be least of the problem for us. But if you can detail on how the CPVC market is and on the CPVC side is there gray mark at premium wherein one can get comfort that the current prices will at least remain the current levels until March, based on the import shipments which are happening by the larger players or by the industry? Thank you.

Sanjay S. Math: I think the CPVC market in India is somewhere around 160,000 to 200,000. Unfortunately, there are only two CPVC producers. One is Lubrizol, one is DCW. DCW has a capacity of 10,000 and the Lubrizol has a capacity of 50,000. So, only 60,000 tons are local made CPVC, out of around 200,000 tonnes, which is the demand in the market, even if we give the factor for pandemic, the demand is about a 150,000, 160,000 tons, and the local supply 60000 tons. So then most of which is coming from abroad and it is an import. Now import as you know, is presently disrupted because of various logistical problems also, and that is where the problem or CPVC, shortages is arising. There is no immediate solution at present that yes CPVC will restore it to the level that once the logistical problems are resolved, I think CPVC supplies also will also resume. Some of the producers in India have problem of shortages of CPVC. Somehow, we are able to maintain our supplies. We have diversified our alternate sources and we have been able to maintain or production so far. I think, going ahead, there is a challenging position for all of us. It is not that we will be only saying that, the other producers are not able to do and we are able to do, I think the challenges are similar. And maybe our diversification of supplies will maintain us through the next quarters.

Ritesh Shah: Thank you, so much Sir. Sir on PVC price gap, between on what the current prices are versus the import shipments, which have been booked by the largest players in the industry, I think still there is a wide gap. How should one understand this?

Sanjay S. Math: I did not get you, what is the wide gap in what?

Ritesh Shah: Sir, what we understand is that the larger industry players, the shipments what they have been importing, it has been at \$1900 and even at \$2000 plus vis-à-vis the current Reliance prices in India, which are quite low. So Sir, how should one read into this, as you explained on CPVC, there is a supply issue, which is there. So even on PVC, is the supply issue that acute?

Sanjay S. Math: PVC supply issue is acute. The demand is there and the supplies are limited. The imports roughly should have been about 130000 to 150000 tons a month, which are not happening and their domestic production cannot go up beyond, say 120000 tons, 130000 tons. So total demand could be around 250000 to 260000 tons, out of that the import component is coming down because of logistical problems and the supply constraints and that is where the supplies from the imported prices are going up for India, because demand is high, supply is limited. Now, the question is whether this is the parity between the import price and the domestic prices. I think more or less, the domestic prices are trying to follow the international prices, the import prices, so there is a time gap and they are little lower than the imported price. This is definitely better for the local producers also that the domestic



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supply is little cheaper than the imported price and that is why you will see, there is an open market price is higher than the actual list price of the domestic suppliers.

- Ritesh Shah:** Sure Sir. Thank you so much for the detailed answers. Rutuja, over to you.
- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.
- Rajesh Ravi:** If you have shared the CPVC volume and resin for the quarter please?
- Niraj Kedia:** We have already shared Rajesh.
- Rajesh Ravi:** I missed the initial comments.
- Niraj Kedia:** So CPVC volumes for the quarter was roughly 3600 tonnes, and in terms of revenue roughly 125 Crores.
- Rajesh Ravi:** Volume you said, 3500?
- Niraj Kedia:** 3600.
- Rajesh Ravi:** Good pickup compared to earlier number, and fittings Sir, revenue?
- Niraj Kedia:** So, fittings roughly 200 Crores.
- Rajesh Ravi:** Last year, same quarter, it was how much Sir?
- Niraj Kedia:** Roughly 110 Crores.
- Rajesh Ravi:** Great Sir. I will come back in queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.
- Sneha Talreja:** Thanks a lot for the opportunity. Most of the questions are answered. Could you just give the current trend of PVC, EDC, VCM prices?
- Anil V. Whabi:** We have said these numbers twice. It will be uploaded in the transcript you can take it from there.
- Sanjay S. Math:** You wanted current right?



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- Sneha Talreja:** I wanted current I think you mentioned the Q2 numbers?
- Anil V. Whabi:** Current PVC price is \$1900, while EDC is \$1000, ethylene is \$1115, and VCM is \$1595.
- Sneha Talreja:** Okay got it. Sir last thing you definitely said that agri there is a mix trend which is going on in terms of demand like some farmers who have already delayed the purchase a couple of times are coming back while there are some who are delaying it. Could you also give some qualitative aspects what happens on the plumbing segment is there any larger amount of shift which is happening towards the CPVC pipes given that PVC prices are historical high or trends like distributors are delaying the purchases?
- Sanjay S. Math:** See for plumbing sanitation segment since these pipes are free class items so I do not think there will be much deferment as far as the projects are concerned. Yes, there could be some slight shift towards the PVC that is why you see the PVC volumes being higher.
- Sneha Talreja:** Right. Got that Sir. Thanks a lot Sir and all the very best.
- Moderator:** Thank you. The next question is from the line of Udit from Yes Securities. Please go ahead.
- Udit:** Thank you for taking up my question. Just a brief guidance that how do you see the capex moving forward for coming two years?
- Sanjay S. Math:** See normally our capex hovers around 100 Crores to 150 Crores in a year so that is how it will be but yes in coming months and some period we will have to plan some expansion in pipe segment so there we may be little higher but roughly it should range between 100 Crores to 200 Crores only.
- Udit:** Okay Sir and on the demand, as a followup like do you see any pent up demand that will followup in H2 of this year because PVC prices are unlikely to come down so do you see this there will be some stagnancy from the rural market or how do you see this the second half?
- Sanjay S. Math:** It remains to be seen.
- Moderator:** As there is no response from the line, we move to the next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Thank you Sir for the opportunity. Sir just wanted to know if there was any further update on the land sale which was proposed about two months back so any update on that?

- Sanjay S. Math:** No major update, you know this is going to be a long process so this will take some time. So it is progressing.
- Kaushal Shah:** Alright Sir. So does it mean that we have kind of still not received any firm proposal?
- Sanjay S. Math:** There are firm proposals you know the process takes long time. There are approvals required so we are proceeding with that so this will take a little time.
- Kaushal Shah:** That is it.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Good morning Sir. Congratulations for great set of numbers. Sir my question is regarding low production of PVC you related to the reason but due to this low production of PVC in last quarter, will the production of PVC pipe and fittings will be affected in current quarter?
- Sanjay S. Math:** No we have resumed all our PVC operation to the full level so both EDC route as well as VCM route both the plants are running full. There is no shortage of resin for the PVC pipes and fittings.
- Vipul Shah:** Sir what was the VCM to PVC delta in this quarter?
- Sanjay S. Math:** VCM to PVC delta is 391.
- Vipul Shah:** In this second quarter, 391?
- Sanjay S. Math:** 391 yes.
- Vipul Shah:** Lastly Sir can you give CPVC volume for the first quarter this year?
- Sanjay S. Math:** CPVC volume first quarter was 2430, this quarter 3600, the improvement is 50%.
- Vipul Shah:** What was the same in the corresponding quarter of last financial year?
- Sanjay S. Math:** Last financial year was 2000 so there is an increase 77% volume wise.
- Vipul Shah:** Okay Sir, thank you and all the best for the future.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

- Rahul Agarwal:** Thank you for the followup. Sir just one thing on the MIDC land sale, so minimum 725 Crores expected. Could you help with some kind of more details on this transaction essentially I understand it is a long process but purely net of tax what would be the cash inflow for the company? What are the existing structure that this land parcel who are the nature of buyers are here and in the press meeting you also mentioned it is going to be full or in parts or in piecemeal so any timeline like two years, three years, how much does the commission will actually take time, some more details please?
- Sanjay S. Math:** It is difficult to say it should happen in one year but let us wait and see and of course there will be tax on the realization which will have to be paid.
- Rahul Agarwal:** So that is a long term capital gain like 10% is that correct?
- Sanjay S. Math:** Long term capital gain yes, 10% or not will have to, I think it will be more 10% because this is land, it would not be 10% it will be higher.
- Rahul Agarwal:** Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.
- Chirag Lodaya:** Thanks for the opportunity. Sir what is the current PVC imports happening into the country on a monthly basis?
- Sanjay S. Math:** Very difficult to say these numbers are normally published month to month they are changing but somewhere around 60000 to 80000 tons.
- Chirag Lodaya:** Secondly Sir what percentage of total imports on a normalized basis happens from China forex?
- Sanjay S. Math:** We do not import PVC.
- Chirag Lodaya:** In general for the industry I am trying to understand.
- Sanjay S. Math:** I think China is not the major supplier. Basically it is the Taiwan, Japan, and some other Southeast Asian countries, but yes there is some coming from China. I think this breakup is available in export/import data published by the government.

- Chirag Lodaya:** The reason I was asking is you mentioned that there is a recovery possible in China because carbide route has opened up and that can ease overall PVC prices globally. So I am just trying to understand that correlation if any?
- Sanjay S. Math:** That correlation was that China is also presently taking PVCs from the global market. If they produce more in the local market domestic market, their demand will go down for the international market. That way I think the surplus could be available from other places.
- Chirag Lodaya:** Sir what percentage of our total production is through EC route and what percentage from VCM route?
- Sanjay S. Math:** I think we have something like 250000 tons total out of that 15000 is our EDC route and 100 thousands is from the VCM route so you can say 60:40.
- Chirag Lodaya:** This currently any reason why the VCM spreads have come up sharply versus EDC?
- Sanjay S. Math:** VCM is also going up I do not know what are you referring to and VCM is also going up I think they have their own differential dynamics of supply and demand and that is why there could be some lag in between but both of them are moving up.
- Chirag Lodaya:** Just lastly, Sir is it trying to assume that in current quarter we will see a very good inventory gain and overall profitability will also be much better than what you have achieved in last quarter? Is it fair assumption?
- Anil V. Whabi:** No. I do not think so, see inventory gain would be there if there is a sharp increase in the resin prices. Now we are saying that resin prices are all time high then there is an expectation of softening so there will be no more inventory gains.
- Chirag Lodaya:** Say suppose the current prices are there for the next two months so what is the quarter then definitely we should see inventory gain price because last quarter specifications have been?
- Anil V. Whabi:** The previous material has already been consumed so whatever new materials come in will commit at current prices so there is no question of inventory gain in that.
- Chirag Lodaya:** Okay because large part of price increases happened in the month of October right?
- Sanjay S. Math:** September as well as October.
- Chirag Lodaya:** Okay. Thank you and all the best.

- Moderator:** Thank you. The next question is from the line of Karan from AMSEC. Please go ahead.
- Karan:** Thank you for the opportunity. What kind of SKU addition we have seen in plastic pipes in fitting this and especially in CPVC if you can quantify?
- Sanjay S. Math:** Your question is not clear.
- Karan:** I will repeat. What kind of SKU addition we have seen in plastic pipes and fitting and especially in CPVC if you can quantify?
- Anil V. Whabi:** As we said last quarter also this SKU number is about 2150 so I do not think we had much from quarter to quarter basis. Yes there will be some addition, slight addition.
- Karan:** Out of this 2150 how much could be the CPVC portfolio?
- Anil V. Whabi:** It would be around 370 SKUs.
- Karan:** Right, thanks, one question from my end how do you see the channel inventory as of now because the prices are all time high and given the fact that in near term we might see some softness so are they at the peak inventory or they are still waiting for some correction?
- Sanjay S. Math:** Typically, they do not carry much inventory. The typical secondary of partner would have inventory of one to two weeks and that is how the trend has been whenever there is a rumour or market trend that the prices are going to go up they slightly increase the inventory plus at the same time nobody can just buy there has to be space to keep also so I do not think there is a very material rise in the inventory levels with the partners as well. They range between one and two years.
- Karan:** Thanks. Okay and any update on water tank segment that is it from mine.
- Sanjay S. Math:** No bet on that actually.
- Karan:** Okay.
- Moderator:** Thank you. The next question is from the line of Prashantkumar Hazariwala from Solitaire Financial. Please go ahead.
- Prashantkumar H:** Good morning Sir. My question is that we have seen sharp increase in our operating margin you see all this price hike and all the stuff as far as shortage of supply and all this so what kind of operating margin we can expect going forward like for next one or two years,

sustainable because we have seen 20%, then 50%, and now currently we are around 28% to 30% kind of operating margins so what kind of operating margin we can expect for next that is sustainable?

Sanjay S. Math: We have always been saying pipe segment it is little easier where we have per kg is Rs. 8 to Rs.10 of EBIT and in PVC segment it is volatile because it depends on market circumstances so normal EBIT in the earlier years price has been Rs. 15 is much higher in past one year in this HI also but what would be sustainable it is difficult to say.

Prashantkumar H: Tentative, no target.

Sanjay S. Math: We cannot keep target. Actually all depends on demand and supply situation globally.

Prashantkumar H: Right we have some delta, you have EBITDA right?

Sanjay S. Math: Delta keeps on varying from quarter to quarter from week to week.

Prashantkumar H: We can have a lag of one quarter. Let us say price has increased this quarter so we can pass it on to the next quarter so we can have lag of one quarter or two quarters?

Sanjay S. Math: In PVC segment our normal EBIT was Rs.15 a kg if you look at past few years and the delta was around 550 to 600 dollars a ton, but currently it is hovering around 900 dollars a tonne, so obviously this cannot sustain if it comes down normalizes we did not know the new normal will be higher or it is around 550 or 600 if it is at that level then obviously our EBIT could be around Rs. 15 a kg.

Prashantkumar H: Right so currently what is EBIT per kg currently?

Sanjay S. Math: Rs.30 a kg.

Prashantkumar H: 30, almost double right.

Sanjay S. Math: Yes.

Prashantkumar: One more question if sale this is the peak of price of PVC right so what kind of inventory loss we can have if this is peak of the price, PVC price?

Sanjay S. Math: When the prices come down there will be inventory losses when the prices go up there will be inventory gains it keeps on happening every quarter.



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- Prashantkumar:** Alright, no problem, thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital Services. Please go ahead.
- Ritesh Shah:** Thanks for the opportunity. I just have a one question as you indicated that the import prices are higher for PVC if we analyze the numbers so what you look it on a per kg basis for PVC versus the resin external price sale there seems to be an element of lag now this is quite baffling to understand given the nature of the industry is to be nice where there has been immediate pass through so just wanted to have a sense on why this lag and is it for a particular segment or a particular part of the country?
- Sanjay S. Math:** Ritesh, as we said that present PVC prices on import basis \$1900 and if we take our prices also the domestic player at the import variety it is around close to \$1900.
- Ritesh Shah:** Sir what I am referring to is if the larger industry players who do not have the advantage that we have on backward integration, they are importing shipments at \$1900 to \$2000 plus then why is it when it comes to end product sale that there is an element of lag so I think one of the larger players did indicate that they have a larger B2B or project basket wherein they had certain commitments and they could take price increases only with a lag. Is that the right way to understand it because it comes to be a baffling wherein import shipments are at a higher price then why should one delay the increase in prices on the end products?
- Sanjay S. Math:** Whabi Ji can you answer this? You are talking about pipes and fitting segments versus the resin?
- Ritesh Shah:** Yes Sir.
- Sanjay S. Math:** I think the lag is only about a week or 10 days' time we normally follow the resin price increase and pass it on to the customers.
- Ritesh Shah:** Sir if I look at the differential on those two numbers, actually the premium on pipes and fittings have actually reduced so either it has to be change in mix or something of that sort, or fitting should have reduced which is quite unlikely I do not know what the underlying reason is. I just wanted have the sense. I will probably take this offline Sir. I just wanted to check is there any change in our credit policy in the market place specifically on CPVC we have started to giving some credit of around 30 days so does the still hold and for agri have we discontinued giving credit which we had started temporarily?

- Anil V. Whabi:** See in these difficult periods we have extended little more credits in the market to gain market share but the policy remains same. In Agri we will not normally give credit and in all plumbing sanitation segment, we will give some credit as we have started doing some time back.
- Ritesh Shah:** But Sir on agri side we still are giving credit very selectively?
- Sanjay S. Math:** Very selectively.
- Ritesh Shah:** That is useful Sir. Thank you so much for the answers. Rutuja, can you make once announcement, I think there is a question.
- Moderator:** Thank you. The next question is from the line of Aasim Bharde from Dam Capital Advisors Limited. Please go ahead.
- Aasim Bharde:** Sir just one question in an environment of high PVC prices currently theoretically do farmers have an alternative in say HDPE pipes as well or any other polymer like option?
- Sanjay S. Math:** Today no. Generally for irrigation PVC pipes is the alternative because for HDPE pipes it is difficult they want get people also to lay the pipelines.
- Aasim Bharde:** Is the people and welding part the only problem because right now I think HDPE prices have not kept the same pace compared to PVC so still on the ground that HDPE is not option as for you?
- Sanjay S. Math:** Yes and PVC also as we have said, see this is not going to last for long if HDPE today is \$1200, \$1300 it is expected that the PVC prices also when they normalize will come to this range.
- Aasim Bharde:** Yes you are right I think the market especially the agri market has been waiting for a price fall for a long time and it has not happened yet so just wanted to understand the farmers on the ground actually have an option or not?
- Sanjay S. Math:** True but why it is not happened is each time it is expected that right now also we are saying that the prices are likely to soften but then some event happen you know the cyclones and hurricanes in US one after other then curbs in China on the coal burning so all these and the supply chain issues also logistic issues which have added so since pandemic, pandemic was the first disruption to start with it has been followed up by several events to keep this unusual prices at current level.

- Aasim Bharde:** You are right there has been something or the other that keeps happening. I get that and any sense on the small players would they have, I mean, given the current supply challenges have they in your sense exited the market or would they still have taken temporary shutdowns but they come back once PVC supply is normalized?
- Sanjay S. Math:** Difficult to say but yes they have suffered lot of setbacks.
- Aasim Bharde:** But still net-net once things normalized the industry should have been much more I mean organized players would have definitely increased share to a larger extent and they would retain that right?
- Sanjay S. Math:** It is expected yes.
- Aasim Bharde:** Thanks a lot.
- Moderator:** Thank you. We will move to the next question which is from the line of Sonali from Jefferies. Please go ahead.
- Sonali:** Thank you for the opportunity. I have joined the call a little late hence might have missed out on earlier commentary. Sir my first question is could you give us any update on how this pipe drinking water scheme or Nal Se Jal is progressing across, you know because the pace was a little subdued during the COVID second wave hence checking out on this?
- Sanjay S. Math:** No. It has still not picked up pace, for PVC pipes this will be the last phase of that project so it will take time before the volumes come in. Yes there is some demand off and on but it is not huge so far.
- Sonali:** I understand Sir and so far have all the states started progress on this or this is still in a phased manner?
- Sanjay S. Math:** It is still in the phased manner it is slow it will take time.
- Sonali:** Secondly on what proportion of your mix of plumbing right now or over the next three to four years where do you envisage it to be?
- Sanjay S. Math:** Last quarter we had mentioned that in FY2021 this was 63:37 and we hope to improve on them as the time progresses.
- Sonali:** Sir what was it current quarter Q2?



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Anil V. Whabi: Quarter is because of the seasonality, you will see the changes but on an annual basis we feel that it should slowly improve.

Sonali: Got it Sir and lastly sorry Sir if I am asking this again what is the spread PVC, EDC in Q2 current and year-on-year and that is it from my side?

Anil V. Whabi: Q2 spread was \$790 and currently it is \$900 and last year Q2 654.

Sonali: Thank you Sir.

Moderator: Thank you. The next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks for taking my question Sir. Just one question in the last quarter, we had like we are targeting FY2020 volumes in the current year, so is there any change in the stance?

Anil V. Whabi: We are still wanting to do that and if you see some gap has been bridged now let us see in H2 how much can we bridge further.

Pankaj Kumar: If that is the case from which side we can see the first ramp up is it on agri side or the housing side?

Sanjay S. Math: I think the agri was not doing well for the last quarter, but this year monsoon is good and the Kharif crop is also good, expected that the moisture is there and you will get a good crop for the Rabi also, I think going ahead there is a possibility of good demand from agri. So whatever we lost in volume wise we lose more if the agri does not do well, we have done very well on non-agri so we keep that momentum on non-agri going ahead with the same type of dimensions whereas we would expect that the agri also will come up in the next two quarters which is definitely a positive sign that we see. If that happens then we should be definitely crossing the losses that we make prepandemic and we should be reaching to the prepandemic levels this year. It is our expectation.

Pankaj Kumar: Okay Sir. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Ritesh Shah for closing comments.

Ritesh Shah: Over to you Math Saab for closing remarks. Thank you.



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Sanjay S. Math: Thank you, Ritesh. I hope you were satisfied with our answers to the queries. We value your continued support and we look forward to a good relationship with us. Thank you all of you and thank you for your time with us. Thank you again.

Anil V. Whabi: Wish you all a very Happy Diwali.

Sanjay S. Math: Wish you Happy Diwali too.

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