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FinOlex INDUSTRIES

FIL: SEC: LODR-Reg30
7th March, 2016

National Stock Exchange of India Limited Manager – Listing 5, Exchange Plaza Bandra-Kurla Complex Bandra (East), Mumbai 400051	BSE Limited Manager – Listing Registered Office: Floor 25 P.J.Towers Dalal Street Mumbai 400 001
Scrip Code: Equity: FINPIPE NCDs: FIN16	Scrip Code: Equity: 500940/FINOLEXIND

Dear sirs,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Regulations")

Pursuant to the applicable provisions of the Regulations, please find enclosed text of the conversation of Mr.Saurabh S.Dhanorkar, Managing Director had with Mr.Ashish Tiwari of DNA newspaper. The said conversation published in today's (7th March, 2016) DNA newspaper, Mumbai Edition on page no. 12.

The said publication almost covers the points given in the presentation of the Company which was already submitted by our letters dated 13th February, 2016 and 16th February, 2016.

Thanking you,
For Finolex Industries Limited

Umesh Gosavi
G.M. (Legal) & Company Secretary

Encl: As above

Published Date: 07 Mar 2016

'GST will wipe out tax evasion in pipe industry'

Ashish K Tiwari

> For the overall industry, we foresee over double digit growth in the next five years, particularly for Finolex. Our compounded annual growth rate for the last seven years has been almost 15% and we see it going up to 20%-odd for sure

Enlarge Image

Manufacturer of India's leading PVC pipes and fittings Finolex is riding high on the recent Budget announcements for the Indian agriculture, irrigation and affordable housing sector.

Saurabh Dhanorkar, managing director, Finolex Industries in conversation with Ashish K Tiwari, shares his views on the industry, overall business and future plans.

Could you briefly tell us about the company's business?

We began operations in the early 80s as one of the very few PVC pipe manufacturers in India as the market only used metal and cement pipes then. However, we went for a major backward integration exercise in the 90s and set up a huge petrochemical plant to produce PVC resins – the main raw-material for almost 90% of the pipes (volume-wise) that are manufactured in the country even today. This development completely changed the company's market positioning from a PVC pipe maker to producer of PVC resins with annual capacity of 2,60,000 tonne per annum (tpa). Since we didn't have a large PVC pipe making capacity that time, the PVC resins being produced were also sold to third-party pipe manufacturers. And as incremental capacity addition is very easy in the pipe business, we kept adding capacity between 5,000 tonne and 10,000 tonne year-on-year, as a result of which the entire raw-material production of PVC resins is now consumed in-house. We continue to add capacity which currently stands at 250,000 metric tonne (mt) per annum and are today the largest pan-India brand with a share of 25% in the organised market. Our products are distributed through a network of over 600 dealers and more than 16,000 retail touch points across the length and breadth of the country.

What is the current industry scenario like?

The Indian PVC pipe industry is very fragmented and the domestic demand is anywhere around 17,00,000 mt. Out of this 60% or around 10,20,000 mt, is catered to by the organised players and 40%, or 6,80,000 mt, by unorganised players operating at the lower end of the market. The ratio was other way round earlier, but the share of unorganised sector has started reducing gradually. Overall, there are around 600 manufacturers of pipes out of which only the top 20 companies form part of the 60% organised market and balance are all small players as entry barrier in this industry is very low. In terms of demand drivers, approximately 70% goes into agriculture, irrigation and 30% goes into construction or real estate wherein the metal pipes have been replaced by PVC pipes.

What is the possibility of Chinese products capturing a sizeable pie of the market?

There are two things very crucial for success in this industry viz. distribution reach and brand trust. For farmers, investing in PVC pipes is a capital-intensive affair as the pipeline is considered their lifeline and its failure would spell disaster for their survival and livelihood. Farmers thus prefer not to go for cheap products when putting the main pipeline (from the water source to the field) for their agricultural land parcels. This is one big reason followed by brand trust where Chinese pipes fail, and hence, haven't been able to capture the Indian market. The cheap products from unorganised manufacturers get used only at last mile connectivity (i.e. towards the end of the pipeline) wherein pipes or fittings need to be replaced due to breakages. However, even that is gradually on the decline as tax evasion, which was the main advantage for bringing cheap products, is gradually becoming very difficult for unorganised players. In fact, we are looking forward to the implementation of goods and services tax (GST) as it will completely change the face of this industry and ability to evade taxes will just not be possible then. As a result, the organised players will benefit and grow their business.

What is your take on the recent Budget? How does it impact your business?

The finance minister had said that only 46% of India's cultivated land area has access to irrigation. The balance 54% still depends on rain water for irrigation, thus presenting a huge business opportunity for the organised players and Finolex in particular given our leadership position. The demand for PVC pipes will increase with the increase in land area getting under irrigation. For example, Gujarat started work on irrigation five years ago after Narmada dam was cleared. There is a company called Sardar Sarovar Narmada Nigam Ltd which is doing a lot of work in the area of irrigation. It works in a very organised and systematic matter and is the only government company that pays in advance to contractors while also levying penalties for non-completion or delay in completion of work. So when canals were created in places like Saurashtra, which had no access to water, we saw a huge surge in demand for PVC pipes and fittings. While Gujarat is a very big market for us, we are seeing similar approach being adopted by states like Telangana, Rajasthan and Maharashtra, which is now catching up on the practice. On the construction side, there are two parts to the demand viz. urban and the tier II and III cities. While there is a slowdown in demand from urban markets like Mumbai, Bangalore etc., that's not the case in smaller towns as construction is happening in full swing in these locations. The government's focus and special incentives for 30 and 60 square metre low-cost housing projects will boost the demand further because smaller houses would mean increase in number of apartments, and thus, will call for more plumbing versus large-sized apartments. The government's initiatives on irrigation and low-cost housing mean well for the industry, especially irrigation, which will bring in a lot of traction going forward as there are plans to bring approximately 28.5 lakh hectares under irrigation. This is a very specific target set by the government and there is a clear intent to achieve it. My view is that the Gujarat model will be replicated for successful implementation in other states as well. Same in the case of low-cost housing which is driving demand and we are very bullish for our industry going forward.

But low-cost housing will also focus on using cheaper products. So how will it really prove beneficial for Finolex considering it is priced on the higher side?

If you compare plumbing to the overall cost of the house, it is anywhere between 2% and 5%, which is true for low-cost or high cost housing developments. Now, whether these developers will go for the best brand remains to be seen, but they will definitely choose a good quality product as all plumbing is now being done in concealed manner. And repairing the same will be very challenging and expensive in case of breakage or leakages. So, we definitely see good quality products / brands taking a larger share of the pie over cheap products.

What kind of an uptick in business do you foresee for the organised players?

It certainly presents a large opportunity for all the organised players, but branding and distribution reach will play a crucial role in deciding how much market share gets captured by each of the 20 players. I say this because out of the 20 only 3-4 companies (Finolex, Supreme, Jain Irrigation, Prince Piping) are really pan-India while others are regional players. So in case certain developments start happening in the eastern region of the country, a lot of the organised regional players will not be able to tap the market there.

Will you be able to put a number to this growth for the industry?

For the overall industry, we definitely foresee over double digit growth in the next five years, particularly for Finolex. Our compounded annual growth rate for the last seven years has been almost 15% and we see it going up to 20%-odd for sure.

Could you tell us about margin trends in the pipes business?

Margins are more of a volume game in pipes business and earnings before interest and tax (Ebit) for the industry is between 10% and 12%. In our case, it currently is 10% though it was lower in the past. But we increased capacity and volume, which led to growth in margins. Given that it's not a high-capex business, one can practically keep doubling capacity in 4-5 years or so. The fixed costs go down particularly in the case of a brownfield expansion like ours and see Ebit growing gradually.

What are the possibilities of Ebit doubling?

Ebit may not double up, but in our case, it can definitely go up to 15% from 10% at present.

How is the competition scenario in this business?

Finolex is the largest and the costliest operator. My nearest competitor would be around 3-4% cheaper and next competitor may be more cheaper. And the last guy may be 40% cheaper compared to my products. Having said that, if the last guy's ability to sell cheaper goes down because he may not be able to evade taxes going forward, the situation will only benefit us and that's why I say GST, as and when it happens, will be a game changer for pipes industry as it will wipe out tax evasion.

What is the pricing trend like in your business? Is it very volatile?

In pipes, main cost is PVC resins, which is dependent on two factors viz. oil price and dollar-rupee exchange rate. These two factors bring volatility in the raw-material (PVC resin) prices, and hence, we follow the pass-through mechanism when pricing our products. So there are times when we have taken up prices by 30%. However, with lower oil prices at present, we pass majority of the benefits to the customers while also retaining a small percentage to improve our margins.

Enlarge Image

Farmers prefer not to go for cheap products when putting the main pipeline for their land parcels. This is one big reason followed by brand trust where Chinese pipes fail, and hence, haven't been able to capture the Indian market

Enlarge Image

'GST will wipe out tax evasion in pipe industry'

C-Suite Chat

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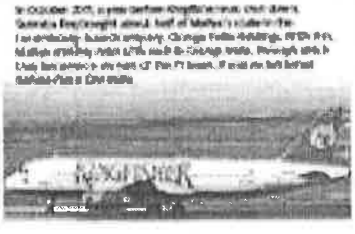

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with Raghu Patel

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