



"Finolex Industries Limited Conference Call"

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- Moderator** Ladies and gentleman good day and welcome to the Finolex Industries Limited Q3 FY'14 Results Earnings conference call hosted by Ancial Advisors Private Limited. As a remainder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Pradeep Seth. Thank you and over to you Sir.
- Pradeep Seth:** Thank you Margaret. Good afternoon to all of you. I on behalf of Ancial Advisors welcome you to the Q3 FY'14 Results conference call of Finolex Industries Limited. Today we have with us Mr. Prakash P. Chhabria – Executive Chairman, Mr. Saurav S. Dhanorkar, Managing Director and Mr. Mandar B. Ratnaparkhi the CFO. I now hand over the call to Mr. Prakash P. Chhabria for opening remarks. Over to you sir.
- Prakash P. Chhabria:** Thank you. Welcome to everybody and I am happy that we have made this into a regular feature. I have a small brief and after that I will be very open for questions, actually Mr. Dhanorkar and Mr. Mandar Ratnaparkhi also will answer the questions.
- Revenues for the quarter ended December 2013 was 660 Crores as compared to 620 recording a growth of 6% on year-on-year basis. EBITDA for the third quarter was 119 Crores versus 99 Crores in the third quarter recording a growth of 19% on year-on-year basis. Profit after tax more than doubled to 64 Crores versus 31 Crores and company continued to post a strong operating performance by earning gross margin of 25% EBITDA versus 18%. As you are all aware this year the monsoon was prolonged as a result of which demand for PVC pipes remain subdued. The sales of pipes and fittings in volume terms were lower by around 7% during Q3 FY'14 as compared to Q3 FY'13. However we do not see any structural change in the demand and we expect volumes to pick up growth in the fourth quarter. As you know the monsoon this year was something which like went on and on and that did affect the volumes but if we see at numbers the numbers were pretty good and we are quite happy with the results. I would be very happy to answer questions if there are any.
- Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Mr. Viraj Mehta from Franklin Templeton. Please go ahead.
- Viraj Mehta:** Hello sir, thanks for taking my question. Just have couple of questions, when we see volume decline for you on Y-o-Y basis would you think the entire industry has degrown or is it that only we would have shown a negative growth?
- Prakash P. Chhabria:** I think the industry has shown some sluggishness so it's not just us; actually we have done much better than I think the industry because of our presence in pan India.

- Viraj Mehta:** I mean to be honest sir if I compare your volumes with other listed peers that we see others have still shown volume growth whereas we have not so I am just trying to compare why has that been the case?
- Prakash P. Chhabria:** Which company is that?
- Viraj Mehta:** Supreme and Astral, I mean those are the only two I know.
- Prakash P. Chhabria:** Supreme in their interview said that they have got a reflection.
- Viraj Mehta:** No they had 3% volume growth in piping.
- Prakash P. Chhabria:** Okay then maybe I was wrong. Okay, that might be possible but 3% as you know we usually grow at 15% to 20%. So whether I am down by 3% - 4% or they are up by 3% - 4% I don't think it hardly matters.
- Viraj Mehta:** Sure, sure. No, this is also much lower for them so I am just curious to know is there somethings are wrong and how much time would it take for you to see the uptake?
- Prakash P. Chhabria:** We always have quarter reporting and the quarter reporting is based on the Gregorian calendar, so December 31 was the third quarter reporting whereas monsoon and the clouds don't go on calendar basis, you know that, so therefore this year luckily the monsoon was good, monsoon was prolonged and in the long run it is good for the country and good for the business, so I might so a dip in December 31 in volumes but it doesn't mean I get scared of because I know there is a good foundation for my next full year.
- Viraj Mehta:** Sir just also wanted to understand when I look at the percentage revenue out of fittings which I understand is a much higher margin business compared to pipes is around 10% for last fiscal I don't know what it is for 9 months this year but compared to other guys or other listed peers is 20% to 25% why is there that kind of a difference for us?
- Prakash P. Chhabria:** Basically because we have always been in the agriculture market and agriculture market the percentage of fitting as such is less than in the non-agri market but in the recent past we have started focusing on the non-agri market also and therefore you will see in the coming future our fitting percentages also will go up.
- Viraj Mehta:** Do we have a target in mind for that?
- Prakash P. Chhabria:** Target in mind yes definitely, we want to grow by about 50% in the next two years.

- Viraj Mehta:** Sir internationally the spreads for PVC how have they behaved, have they come down recently?
- Prakash P. Chhabria:** Except for the last one or two weeks otherwise the delta has been improving and this is only because of a phenomenon called shale gas. Shale gas is a very cheap form of energy specially available in United States of America and because of which the plants over there which was mothballed or people who had gone out of the business and now re-entering the chlor-alkali business, now once they do that then the supply of EDC into the world market which is anyway pretty small the traded market is small, the supply will really create a big advantage to the buyers of EDC which is companies like Finolex, and therefore we will definitely benefit from that. Number two there were companies which like in the Middle East which were expected to go online in November-December of 2013 but as would be expected you know they are huge plants, you can always expect them to get delayed by a month or two because you know such big plants its very easily possible. So that, because they did not come up on time in November or December therefore there was a squeeze in the market just for a couple of weeks otherwise long term even short term I really don't see any EDC going up so therefore the raw material prices will be soft.
- Viraj Mehta:** Okay so your spread should be comfortably around the same region as it is currently?
- Prakash P. Chhabria:** Yes, yes definitely, it will actually go up, it will widen, basically actually only help the PVC manufacturers who are importing EDC.
- Viraj Mehta:** Sir, my question is slightly longer term rather than this quarter is actually when I look at the price at which you sell PVC to I mean the intersegment basically PVC to pipes division and when you sell outside, in few years there is a slight difference or difference to a tune of 5% - 7% how do you explain that?
- Prakash P. Chhabria:** Has difference as it has gone up or down?
- Viraj Mehta:** No, the price at which you sell it to an outsider the PVC is it the same price at which you sell it to your division?
- Prakash P. Chhabria:** Yes, same price.
- Viraj Mehta:** Okay actually that number does not match from your Annual Report that's why I was keen to ask that question.
- Prakash P. Chhabria:** How did you derive that number? How did you derive that the transfer pricing has either gone up or down?

- Viraj Mehta:** Actually sir what I did was you gave PVC, you gave inter-segmental and so I mean whatever volumes were remaining I assumed that you were selling in outside so I mean generally you can calculate the number.
- Prakash P. Chhabria:** But don't forget we also import PVC and buy PVC and the PVC which we import and buy is used in our pipes division. So therefore you will not able to match it and just divided by the revenue and then come up with an internal transfer pricing. But what we do is we follow the norms of internal transfer pricing and we just stick to that?
- Viraj Mehta:** Sir if I look at the margins for our business in this it is close to 8% I mean it's a volatile business in piping but piping is you know roughly been around between 5% to 8% EBIT margins do you see significant change or an improvement post I mean fittings being higher and you know higher utilization from I mean internal utilization do you see that number becoming higher?
- Prakash P. Chhabria:** Definitely if you see already for these 9 months compared to earlier period it is definitely improving the margins and just the pipe business improving and like you mentioned, now and earlier the more fittings are sold yes it will help us, it will help our bottom line and help the numbers.
- Viraj Mehta:** Sir for CPVC that you just recently launched, where do you get the raw material from?
- Prakash P. Chhabria:** We get it from China and Japan.
- Viraj Mehta:** Kanika
- Prakash P. Chhabria:** Yes.
- Viraj Mehta:** Okay and what kind of revenue targets do we have in mind for that business in next two or three years if you can share some strategy?
- Prakash P. Chhabria:** I really have no focus on that product because I don't believe that much in the product; my focus is on agriculture product and non-agri for plumbing and ASPM pipes. CPVC is a product which I really don't believe is good for our country or for our customers. I sell it because people ask for it but it is not one of my focus areas. As you know the temperature in our country does not fall to sub zero degrees, sub zero temperatures, so you need hot water only in the morning and the evening in your Apartment or in your bungalow that is from your geyser to your tap in your shaving or geyser to your shower to shower that's it for that for me to able to convince you to buy CPVC for the full piping of the flat or for the building is not Finolex style. We will not miss-sell products so that we won't focus on it.

- Viraj Mehta:** But sir this market seems to be growing very fast right?
- Prakash P. Chhabria:** Absolutely that is absolutely correct, you are correct about that but if you look at numbers the world produce this 36 million tonnes of PVC, normal PVC, new PVC, out of it the total amount of CPVC which is produced is 300,000 tonnes other than China so if this product was so good and if it is so much so required for a regular consumer the proportion would have been much higher, it wouldn't be less than half a percent.
- Moderator:** Thank you. The next question is from the line of Neeraj Marathe from HU Consultancy Private Limited. Please go ahead.
- Neeraj Marathe:** Good afternoon sir. My first question was on the volume growth guidance that you had given in the Pipe segment so we were talking about a 15% volume growth for the full FY'14 so would we like to scale it down or revise it now?
- Prakash P. Chhabria:** Yes we will have to scale it down definitely, like I said you know the third quarter the monsoon went on out of the three months available in the third quarter monsoon went on for at least 9 to 10 weeks so therefore it went down, the fourth quarter is now opening up and definitely the volume growth will come down.
- Neeraj Marathe:** So any guidance sir, or any color on the kind of full year volume growth we are expecting?
- Prakash P. Chhabria:** We were looking at 15% and I guess now we can look at anywhere between 8% to 10%.
- Neeraj Marathe:** Just one more question on the total PVC sale if you can just split it out between internal consumption and outside sale?
- Prakash P. Chhabria:** Our aim you know as it is to keep growing we do about 240,000 tonnes of PVC per year and out of that about 70% to 80% sold, this if you are looking at quarter 2013 external PVC was 40,000 tonnes and captive PVC was 31,000 tonnes.
- Moderator:** Thank you. The next question is from the line of Silky Jain, Nirmal Bang Securities. Please go ahead.
- Silky Jain:** Sir just wanted to know that our interest cost expenses have gone up in this particular quarter so any reason for the same?
- Prakash P. Chhabria:** Yes, you know we are highly dependent on imports for our raw material and therefore we have Dollar Rupee positions, in the previous years we used to leave some of our rupees open but this year we have consciously taken a decision to cover our dollar bookings basically because this is an election year

and we expect volatility to happen so at the moment we are like 70% of our imports is covered and that is helping us because you know like today also the dollar strengthened and the rupee weakened so this coverage takes care of these spikes and cost of coverage is included into the finance cost and therefore the finance cost has gone up.

Silky Jain: Okay...okay so is it fair to assume that the interest expenses is expected to remain in the same levels may be in this particular quarter itself?

Prakash P. Chhabria: Interest level including final cost yes but the debt, pure debt amount will come down because FY'12 to FY'13 we reduce debt FY'13 to FY'14 we will definitely reduce debt and going ahead also into that for the next two years.

Silky Jain: Any broad based numbers on what types of debt equity ratio are we targeting by FY'15?

Prakash P. Chhabria: This year we are expecting to reduce our debt by 150 to 200 Crores further and FY'15 I would not be able to comment now but we will try to do some similar numbers.

Silky Jain: Sir other things was like as you mentioned that the EDC prices have gone spike may be in the last one or two weeks which had like and you are not expecting the same levels going forward so but the impact of these two three weeks will it be seen on our margins in the next quarter?

Prakash P. Chhabria: Not that much, it will affect but its not going to be a huge impact on it because we are expecting the margins for this quarter also to be good.

Silky Jain: Okay no because in this particular quarter we have seen a very sharp run up in a margins as compared to the last two quarters.

Prakash P. Chhabria: That's right, but if you see the second quarter our volume itself was more, now third quarter volume is low as compared to third quarter last year but third quarter volume of this year is better than second quarter volume of this year and therefore that also helps in the bottom line growth.

Silky Jain: Okay. And sir the other thing was even our power revenues have declined significantly in this particular quarter and the power expenses have gone up?

Prakash P. Chhabria: No...No what happened is in the third quarter of this year we had a Power maintenance the Plant Power maintenance for the Power Plant, it was a one off feature, not a regular feature and therefore for those number of days we had to buy power from the grid and therefore a cost of Power went up so its not a regular picture it should not happen again.

- Silky Jain:** Can you quantify the amount which was like which could be an exceptional amount in this particular Power cost?
- Prakash P. Chhabria:** I wouldn't have the details off hand.
- Silky Jain:** All right, and sir last thing was on a volume growth as you said you would scale down your volume to of PVC Pipes and fittings to 8% to 10%, on an average if we see what sort of volume growth are we looking for FY'14 including PVC and PVC Pipes?
- Prakash P. Chhabria:** No what I have said is that we had thought we would grow by 15% in volume terms for Pipe for FY'14 but because of the prolonged monsoon in third quarter our targets have come down and its going to be between 8% to 10% that was from PVC Pipes not for PVC. PVC as you know is a commodity so that we keep selling; there is no dearth of demand for that.
- Silky Jain:** Okay that is only for PVC Pipes and Fittings.
- Prakash P. Chhabria:** Yes.
- Moderator:** Thank you. The next question is from the line of Abhijeet Dev from BNP Paribas Mutual Fund. Please go ahead.
- Abhijeet Dev:** Just wanted to know if we calculate the unit prices from the segment wise revenue number divided by the sales volumes I see a drop in unit realization for Pipes by about 5.5% quarter on quarter so have you taken any price cut sir during the quarter?
- Prakash P. Chhabria:** Yes, because prices in our business are fluctuating may be like two three times a month this depends on two things, one is the PVC price itself, PVC is a global commodity, so the PVC which is imported into India or announced by the majors outside of India that determines the Dollar price of PVC but the landed price of PVC is also determined on a Dollar Rupee so if you will see in the second quarter there was a huge spike where the Rupee devalued huge times its even went up to 67-68, so obviously the PVC prices were corrected and went up but the Dollar Rupee came down to Rs.62 and Rs.61 in third quarter and therefore the PVC prices and the Pipe prices were corrected and brought down so it is a routine phenomenon.
- Abhijeet Dev:** **Okay so it's not because of to in a bring about some volume growth?**
- Prakash P. Chhabria:** No never, no...no if I had to do that then my volume technically should have gone up but my volume went down last quarter and that is not how this works, this is very cyclical, so it happens very often.

- Abhijeet Dev:** Okay, and in terms of the gross and net debt numbers so if you can give us as of December end?
- Prakash P. Chhabria:** December end we are target basically on March end, and the March end we were really down by about 150 to 200 Crores as compared to FY'13.
- Abhijeet Dev:** Okay, okay, this generally you used to give in your investor presentation but this number is not there this time alone so I am wondering.
- Prakash P. Chhabria:** We will meet yearly target, because quarterly become difficult in this cyclic business, so yearly targets we will definitely meet.
- Moderator:** Thank you. The next question is from the line of Mallik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Good afternoon sir, congratulations for good set of number. Couple of questions, one is on the PVC resin volume, I understand that we India as a country import almost 50% of its requirement and I just wonder, can't we run our capacity at the fullest capacity utilization rather than around 90% what we are running it?
- Prakash P. Chhabria:** PVC Plant capacity runs at full out there might be certain outages because of maintenance and all that otherwise PVC Plants run at full out.
- Maulik Patel:** So this year will we do around 240,000 type of volume.
- Prakash P. Chhabria:** Definitely.
- Maulik Patel:** Sir what Capex we have done so far and when are we commissioning the second phase at Masar?
- Prakash P. Chhabria:** We have done about 45 to 50 Crores of Capex this year and that's what we will do for the whole year, not just nine months, it will be for the whole year and what we did is instead of focusing just on Masar to do the second phase we have rearranged in such a way that we will have overall growth within the three Plants that is Pune, Urse factory, Rathnagiri factory and Masar Plant so not necessary that Masar will be going up in capacity but basically the overall capacity will go up and this was basically based on demand supply and telescopic, pipes are dispatched in telescopic fashion so sometimes we have to rearrange our machinery.
- Maulik Patel:** Sir on PVC Pipe what we have witnessed over the last few quarters our margins continuously improved, sir do you see any scope for further improvement in margin?

Prakash P. Chhabria: Margins will go up in PVC Pipe for two reasons (a) because our volumes are going to go up, so that will go up (b) as I mentioned earlier we are also focusing on fittings so whatever gain is there in the fittings will directly get merged into this Pipe Fittings so definitely it will go up.

Maulik Patel: Sir Fittings as on last year it was around 6% to 7% of our volumes, our PVC Pipe volume so that proportion will go to around 8%-9% every year you can expect 2% - 3% gain or what could be the number in the PVC?

Prakash P. Chhabria: But what you are saying is double because my PVC Pipe gain is also there and you are saying to grow in this also it's a double gain it's a very aggressive thing but we are trying to do that.

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

Kashyap Pujara: Hi good evening and congrats for a good set of numbers. Couple of questions first is that in the first nine months of FY'14 the total PVC Tonnage is 1,75,253 Metric Tons could you give me the total nine month captive consumption figure so far?

Prakash P. Chhabria: One Lakh One Thousand Tons.

Kashyap Pujara: And on the same period last year how was that placed?

Prakash P. Chhabria: We will send it to you.

Kashyap Pujara: Okay fine. Second is if I you know you are effectively guiding close 8% to 10% growth on PVC Pipes this year hence it implies more or less like 1,90,000-odd Tons and looking at the first nine months of volume basically you know we are looking at a run rate of 60 to 63,000 Tons for the last quarter, is this achievable as a number?

Prakash P. Chhabria: Yes it is achievable.

Kashyap Pujara: Okay and going forward if I were to you know look at the next couple of years I mean in the past the industry has grown by 11% volume terms in terms of a volume CAGR over the last five-six years but going forward what is the realistic case of volume growth that the industry can, you know, can achieve and where you know Finolex will stabilize in terms of Pipes?

Prakash P. Chhabria: I think I can talk more about Finolex than about the industry because you know industry is made up of too many disorganized sector and let us say something like GST comes I know its been postponed but let say something like GST comes, it makes a big difference directly for the organized player, so things like that without taking into account all those things talking about a two digit growth for PVC

pipes for Finolex for the future is something which is very normal for me. Like I said you know what happens is unfortunately we follow a Gregorian year you know January, February, all that monsoon the clouds don't do that and we have seen this in the past also in our you know I have been working for 26 years now so we have seen in the past the demand keeps either starts too early or starts too late but the demand is always there waiting.

Kashyap Pujara: Correct...fair enough, so you realistically speaking are you confident of you know looking at a 13% to 15% kind of growth on volumes over the next couple of years?

Prakash P. Chhabria: Definitely.

Kashyap Pujara: And just while you shared your insights on the EDC chain to PVC could you just share your view on the VCM route to as to how is that economic shaping up?

Prakash P. Chhabria: You see VCM also directly affecting with the EDC prices so as I am saying EDC will soften it has only one way to move on that is to go South that will also pull the VCM prices out (b) like I mentioned about shale gas helping ethylene di chloride plants, as we speak there are seven brand new crackers of whole sale coming up in America in the Southern state, all of the will not come up tomorrow but they will come up at a fast breaking speed because this is all proven technology and they work very fast. Of course let say two years from today maximum you will have huge outsource of Ethylene also in the world market that also will benefit companies like Finolex who rely on EDC and Ethylene.

Moderator: Thank you. The next question is from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani: Good evening sir, just couple of questions from my end. First of all if you can throw some light as far as the dealer distribution network and you know what is the kind of dealers that you added over the last one year and if you can also throw some light on you know how your old dealers have grown compared to you know what is the volume contribution from new dealers versus old dealers?

Prakash P. Chhabria: Let me handover to Mr. Dhanorkar because he will answer some of these.

S.S. Dhanorkar: Good evening. Basically dealer network and increase in dealer network is an ongoing process for us. We have as we explained in the last conference call system where we have direct dealers then each dealer would have sub-dealers and the sub-dealers would have network retailers so we have a mapped network of about 15000 and going by about 200 to 300 every quarter

Nainesh Rajani: **Are these** main dealers that you are talking about?

- S.S. Dhanorkar:** No 200-300 I am talking about the retail, the main dealers for us, increased by our target is annually increased by about 50 dealers. Typically what happens is the sub-dealers who as the dealer grow the sub-dealers also grow and once the sub-dealer achieves the critical mass then we appoint him as a direct dealer in many cases. In new areas we go by completely new appointment, like in now we are going strong in the Eastern part of India and North we have already started dominating now North so there we are appointing some completely fresh dealers and some of the dealers we have already grown big enough to be appointed as dealers. So overall you will keep on seeing about 50 dealers directly into translating into 500 to 1000 retail points every year.
- Nainesh Rajani:** The second thing that I wanted to ask as far as the hedging policy is concerned for a raw materials and the Forex part of it, do we have a hedging policy in terms of both of these?
- S.S. Dhanorkar:** Yes we do, the hedging policy as such is not a very rigid policy that on the day we open the LC, we blindly cover but the policy is that minimum 50% we would be always hedged and then depending on the prevailing rate we increase that like today we are more than 70% covered because that 61-62 we see this as good levels plus we see volatility going ahead because of the elections, so the policy is not to be below 50% but just like that its not a rigid policy that it will be 100% covered.
- Participant** Okay , sir and other couple of questions if I may add, as far as our pipe segment is concerned what is a capacity and what is the capacity utilization and what is the capacity that we intend to have I am sorry this is my conference call sir so if you can pardon me for some absolute basic questions?
- S.S. Dhanorkar:** Yes absolutely no problem about that, the current capacity is 210,000 Tons and as I said we will be ending the year around 190,000 Tons of actual production and this 210,000 Tons will go up to 230,000 Tons by March what we have also doing this is partly because of the expansion in Masar with the Plant which came up last year the current capacity is 30,000 Tons and new machines have already started arriving and it will go to 50,000 Tons plus what we are also doing on an on-going basis is the old machine especially at Rathnagiri and Pune is that the old machines which were at lower capacity we are taking them off and replacing them with machines with almost double the capacity so the same infrastructure same land same buildings would give us more volumes so going ahead we would be adding another about 50,000 tons with hardly any Capex.
- Nainesh Rajani:** So what will be the Capex for thatI mean overall Capex for this expansion and over to next one or two years what will be the maintenance Capex and actual Capex?
- S.S. Dhanorkar:** The total days would be we don't see more than 50 Crores the actual Capex would be about 30 to 40 Crores and maintenance about 10 to 20.

- Nainesh Rajani:** All right sir that's all from mine thanks a lot all the very best I'll come back in queue for more questions.
- Moderator** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** Could I just get the production volumes for the PVC resins and the pipes for this quarter?
- M.B. Ratnaparkhi:** PVC resin current quarter 78500 is the production and pipes and fittings 40,500.
- Deep Master:** Within that what would the volume of fittings be?
- M.B. Ratnaparkhi:** Fittings is roughly around 8% to 10% out of that.
- Deep Master:** Could you share some light on EDC versus VCM generally 60-40 is that maintained this quarter or was it slightly different?
- M.B. Ratnaparkhi:** This quarter that would be around that level.
- Deep Master:** Okay that is 60 for EDC and 40 from VCM.
- M.B. Ratnaparkhi:** Correct.
- Moderator:** Thank you. The next question is from the line of Sathyamurthy from Sundaram Mutual Fund. Please go ahead.
- Sathyamurthy:** Thanks for taking my question sir, you were talking about the glut in EDC capacity going forward, could you tell us what will be the constraint of putting up PVC capacity and during our previous interactions you had also mentioned that you wouldn't be putting up any additional PVC capacity and most of the expansions would be in the pipes business so how prudent is that as a strategy for the company going forward?
- Prakash P. Chhabria:** If you see the import duty protection on PVC is not that great that we can go ahead and do a new Capex, otherwise as you know India imports close to half of its PVC so volume wise it would have been prudent for all the PVC manufacturers in this country to set up expansions or even Greenfield projects in the last three-four years but nobody has done that, it is only because of the protection, there is hardly any protection and its doesn't justify Capex and therefore to improve our bottom line all we do is keep on adding more volumes value adds by doing pipes and fittings.

- Sathyamurthy:** So at this point of time you are completely dependent on your own PVC capacity pipe you are not buying anything?
- Prakash P. Chhabria:** We also at times buy from the market.
- Moderator:** Thank you. The next question is from the line of Akash Vora from Prag Investments, please go ahead.
- Akash Vora:** If I have to compare you on nine months profit numbers or corresponding nine months figure of previous year when foreign exchange loss gain can you give me the breakup between operational gain loss and loss that came from your speculative foreign exchange derivatives?
- Prakash P. Chhabria:** There have been no speculative foreign exchange derivatives.
- Akash Vora:** Sir which had to a last extent been now we have wounded up and by March 2013 except for some 113 disputed items at banks so can you just give me the break?
- Prakash P. Chhabria:** No the disputed items are still under dispute.
- Akash Vora:** Yes so I need to get the figure for actual.
- Prakash P. Chhabria:** But for all of this what is actual. Whatever asset clause was there in the in the first quarter was actual what was in second and third is on actual, what happened is in the first quarter because the Rupee depreciated sharply from opening of first April to closing of first quarter and the middle of second quarter that is where what they call losses was absorbed, after that because it has been steady there has been no losses. Actually in the third quarter there has been a slight gain.
- Akash Vora:** No sir the outstanding derivative losses which had been in past which has standing by now in the books?
- Prakash P. Chhabria:** No that is what you said know 113 Crores that continues under dispute....that is there in the Balance Sheet as contingent liability. It is not part of this year; it is not part of this quarter.
- Akash Vora:** How much is the pending how much is the figure in last nine months I wanted that sir?
- Prakash P. Chhabria:** No but for derivative 113 Crores was reported on March 13 and as of today also it is still 113 Crores under dispute.
- M.B. Ratnaparkhi:** It is contingent liabilities not provided.

- Akash Vora** Yes sir I understand I wanted to know the break up like what is the actual loss foreign exchange gain loss and speculative loss?
- M.B. Ratnaparkhi:** There is no speculative loss at all. These nine months there is no speculative loss whatever is reported all actual operational loss or profit.
- Akash Vora:** Sir last year nine months figure what was the break up?
- Prakash P. Chhabria:** Last year nine months there was a speculative loss, not speculative loss that was a derivative settlement for around 40 Crores.
- Akash Vora:** 40 Crores was speculative loss.
- Moderator** Thank you. The next question is from the line of Sangeetha Purshottam from Cogito advisors, Please go ahead.
- Sangeetha P.:** My question was really pertaining to the foreign exchange numbers. We have a fair amount of unrealized gains and some element of realized losses now these I am presuming would be partly on account of debt forex debt on the book and partly on account of the raw material import, would it be possible for you to give segregation in terms of how much was the impact on debt.
- Prakash P. Chhabria:** No but all of this there is nothing known as debt. We don't have any ECB. This forex which is there is basically buyers credit for rat material import?
- Sangeetha P.:** I see okay, so in a sense the right way to look at it would be to actually add the gain or the loss to your cost of production right?
- Prakash P. Chhabria:** Yes.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from Sharekhan. Please go ahead.
- Humesh Patel:** I was just wondering that if I look at the sequential number particularly on revenue and EBITDA front, revenue gone up by 69% and EBITDA also grew by around 44% on quarter on quarter basis but if I look at the margins I mean your margins declined at EBITDA level sharply by 300 to 320 basis point so I just wanted to know what was the reason behind that and if I look at the cost of raw material I mean as a percentage of sales it grew significantly from 59% to 65% can you throw some light on this?

- S.S. Dhanorkar:** Basically as we said earlier lot of new EDC capacity which was expected to come up during last quarter got delayed especially in the Middle East it was expected to come up in October and that the client did not stabilize so lot of people like us who were waiting for that capacity and had not booked earlier we of course buy on long term basis we were not a spot buyer but many people then went into the spot market and that cause the temporary spike in the prices of EDC as Mr. Chhabria explained towards the end of December whatever price was arrived, it went up bit sharply and that is where the raw material price has the content of raw material the total sales have gone up temporarily but we don't see any structural change in our view that EDC is becoming long because these capacities are coming up and will come up, so going ahead we expect EDC to remain soft.
- Humesh Patel:** Second question is related to your PVC, I just wanted to know what is the proportion of Pipe compared to fittings actually because as you highlighted earlier that fittings generate higher margins compared to Pipe.
- S.S. Dhanorkar:** Yes traditionally it has been only about 6% to 7% and now steadily it is going up to 8% to 10% and our target is to take it about 15% the fittings component.
- Humesh Patel:** Okay so do we expect that the EBITDA margin will remain stable at around 17% to 18% for the next few years say like for FY'14 and FY'15?
- S.S. Dhanorkar:** 17% to 18% definitely on the conservative side we actually expect that to improve.
- Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** Hi sir could you give us the sense on your sales volume breakup between the Agri segment and Housing?
- Prakash P. Chhabria:** Its about 70-30, 70% is Agri and 30% is Non-Agri.
- Deep Master:** Okay and could you give us comments on how the two markets are beginning this quarter I mean you spoke about Agri but the housing segment?
- Prakash P. Chhabria:** As per our this thing we saw a slight softness in the Non-Agri and therefore when people say that the other people who are more dependent on non agri it is better so I really don't know where they got the numbers from so I don't know but the market is so huge I think its very difficult to really able to pinpoint what others are doing but we saw slight softening in the non agri also.
- Deep Master:** Will that impact your NSR?

- Prakash P. Chhabria:** Slightly actually you see margins have gone up so not really reflected.
- Moderator:** Thank you. The next question is from the line of Rajesh Gandhi from B&K Securities. Please go ahead.
- Rajesh Gandhi:** Good afternoon sir, congratulation for the good set of number. I have just question on the Power segment side I think we have roughly invested close to 300 Crores in our Power segment as capital employed last year we have generated closed to 48 Crores on the EBIT levels and this time we have seen on Y-o-Y in this particular quarter on Y-o-Y it is dropped from 20 Crores to 3 Crores and on a sequential basis also it is drop from 10 Crores to 3 Crores I think you have mentioned one of the particular reason because of that we have not operated the Power segment fully, if you can give some light about what about the next year any long term contract we have done for the Power side or may be can we expect any normal run rate of 48-50 Crores on the capital employed of 300 Crores for the next year?
- Prakash P. Chhabria:** No for a full year it should because this was very one off this is not like a routine maintenance downtime or anything and what happens is when you buy from the grid and when you buy from the grid you are paying much higher prices so that affects all of this.
- Rajesh Gandhi:** Sir I am not talking about the Power cost I am just talking about the EBIT level on the pure power business side?
- Prakash P. Chhabria:** Yes but that should go back to normal.
- Rajesh Gandhi:** Close to 48-50 Crore what we have generated last year can be possible on the negative side.
- Moderator:** Thank you. The next question is follow up from the line of Humesh Patel from Sharekhan Securities. Please go ahead.
- Humesh Patel:** Sir just wanted to know how much credit days that generally we give to distributors?
- Prakash P. Chhabria:** We gave zero valid days because we are the only company which sells against RTGS.
- Humesh Patel:** 100% RTGS right?
- Prakash P. Chhabria:** 100% RTGS and that is something no other guy can do it. It is only us who do that.
- Moderator:** Thank you. The next question is from the line of Ravi Mehta from Deep Financial, please go ahead.

- Ravi Mehta:** Just wanted to check on the Forex part of it, as we see that most of the gains and loss what we are generating it is because of the buyers credit, so just wanted to have a sense that as of date whatever is outstanding is been 70% hedged you said, so sir what levels of you know we have hedge that for the coming quarter?
- Prakash P. Chhabria:** Our hedge is up for all open LC which are due over the period of let say next 10 to 11 months so it is not one month or one quarter.
- Ravi Mehta:** So when you say 70%.
- Prakash P. Chhabria:** It is as of today let us say if I got \$100 worth of LCs open today \$70 out of that is covered.
- Ravi Mehta:** Okay and generally the tenure of these would be six months.
- Prakash P. Chhabria:** Between six months to nine months.
- Ravi Mehta:** What would be the hedging rate, if you can share?
- Prakash P. Chhabria:** It is about 6 to 7% of the forward cost, 6 to 7% analysis, open market.
- Ravi Mehta:** And you have hedged at around what levels as you said that recently it had come to 61-62 and you founded a favorable rate.
- Prakash P. Chhabria:** When it was closer to 61 is when we did the coverage.
- Ravi Mehta:** Okay thank you.
- Moderator:** Thank you. Anyone who wish to ask a question may press "*" and "1" at this time. As there are no further questions I would now like to hand the floor over to Mr. Pradeep Seth for closing comments.
- Pradeep Seth:** Thank you Margaret. We thank every one of you to follow me on the call. Have a nice day.
- Prakash P. Chhabria:** Thank you every one. Thank you.
- Moderator:** Thank you. On behalf of Ancial Advisors Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.