



“Finolex Industries Limited  
Conference Call”

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**INVESTOR RELATIONS: MR. SAJIT PISHARODI**

**MANAGEMENT: MR. PRAKASH P. CHHABRIA - CHAIRMAN**

**Moderator:** Ladies and gentlemen, good day and welcome to the Finolex Industries Limited Q1FY14 earnings conference call hosted by S-Ancial Advisors Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sajit. Thank you and over to you Sir!

**Sajit:** Thank you. Good morning to all of you. I, on behalf of S-Ancial, welcome you to the first quarter FY14 analyst conference call of Finolex Industries Limited. We have with us today the senior management of Finolex Industries Limited represented by Mr. Prakash P. Chhabria, Chairman, Mr. S.S. Dhanorkar, Managing Director and Mr. Mandar B. Ratnaparkh, CFO. I now hand over the call to Mr. Prakash P. Chhabria for his opening remarks. Over to you Sir!

**Prakash P. Chhabria:** Thank you Sajit, good morning all. It is great to you have you **all the conference** call today. I am happy to report that Finolex Industries **as reported as** robust performance during the first quarter FY14. Our revenues have grown to 563 Crores in the first quarter FY14 as compared to Rs. 520 Crores during the corresponding quarter of the previous year, which translates to about 8% growth. The EBITDA before **exception** items for the quarter ending June 31<sup>st</sup> was 95 Crores versus 87 Crores as compared to last year, which translates to about 9% growth.

Profit before tax in this quarter has grown to about 32 Crores as compared to a loss of 14 Crores during the corresponding period last year. Net profit for this quarter is 23 Crores as compared to a loss of Rs. 14 Crores last year. During the quarter as you all know the rupee has depreciated by about 10%, but we have been able to pass on most of the cost of the raw material to the final consumer **within the price without affecting** the demand for the product, which clearly indicates our brand strength. Finolex Industry achieved EBITDA margin of 24% despite the slowdown in overall economy.

Demand for PVC pipes and fittings remains strong during the quarter under review. The company sold 53,840 metric tonnes of PVC Pipes & Fittings in the first quarter as compared to 40,388 metric tonnes during the corresponding period last year. On the capacity front, the company is in the process of commissioning phase II of the Masar unit by Q3, Q4 FY14, this will **added on the** 20,000 tonnes of capacity taking the aggregate PVC pipe capacity to 2,30,000 tonnes per year. With the short opening, I would like to leave the floor **opening** for any questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Tanuj Makhija from Ambit Capital. Please go ahead.

**Tanuj Makhija:** This year we have seen a strong revenue growth of PVC pipe segment of around 40%. Can you throw some light as with the distribution of reach or what is the main increase of such a sharp increase in PVC pipe revenues?

**Prakash P. Chhabria:** What has happened in the Masar expansion is that it went into commissioning during March 2013, so the first phase, which got commissioned the majority of the chunk got reflected in the first quarter of FY14 and therefore you see such a sharp growth and while we were setting up the plant which took us about close to a year to setup the plant, during that time what we did was to strengthen our dealership network throughout the country. As you know we are the only PVC pipe manufacturer who is pan India. We sell pipes all the way from Kashmir to Kanyakumari and all the way even from Bhutan and Assam to Gujarat and you will be surprised to know we regularly supply our pipes to Andaman Nicobar Islands also. So, keeping in mind that the expansion was coming up, we had been gearing up for the last 12-13 months to see that this product is distributed properly into the market.

**Tanuj Makhija:** Specifically, which regions you wanted to increase your distributorship, was it higher increase in north, east or which part of India and secondly what is the capacity added in the last quarter?

**Prakash P. Chhabria:** We have traditionally been very, very strong in the four southern states and Maharashtra, Gujarat and north, north east is the market, which we have already been lagging behind, so for the last let us say one-and-a-half two years, we have been focusing more and more on the north east. So, most of this growth came in from north and north east for us, so the capacity which has been installed for Masar is about 30,000 tonnes in the first phase.

**Tanuj Makhija:** How much do you plan to add 20,000 tonnes?

**Prakash P. Chhabria:** 20,000 further to Masar during this year.

**Tanuj Makhija:** What would be your total distributors right now for the PVC pipes across India and how many will you add in this quarter?

**Prakash P. Chhabria:** We do not have distributors, We call them dealers and sub-dealers. So, our dealers, sub-dealer network is about 500 dealers and everybody put together is about 14,000 and we have been working on adding for the whole of last 14-15 months and not just during the quarter.

**Tanuj Makhija:** Okay and my final question is that, we have seen a sharp rise in revenues, but your EBIT margins continue to be around 8%. When would we see the higher operating leverage translate to better margins?

**Prakash P. Chhabria:** As you know we are cyclical industry, so at times even though we are able to pass on the raw material cost and the dollar rupee depreciation into the market in the prices the lag on the raw material cannot be translated during the same period of time and therefore that mismatch always happens, so what happens if you compare year-on-year, you will see there will be a growth, but quarter-on-quarter is narrow time to compare the cyclical industries.

**Tanuj Makhija:** Because I see that your EBIT margins have actually fallen year-on-year by 100-basis points?

**Prakash P. Chhabria:** That is true like I said quarter-on-quarter is a very small window for our business to judge. If you see year-on-year we you will find, it is going to be bigger and like I had mentioned in my speech the rupee depreciated very sharply in a very short time. So, if you will compare the dollar rupee depreciation in the past has always been dragged. There might be 10% decrease over a period of 12 months, but this happened over a period of like 12 weeks. So therefore the prices on the raw materials immediately got affected and even though we were able to pass on the price rise on the final product the profitability will get affected during such a short period of time.

**Tanuj Makhija:** Sir just one last question, what is the price increase you have taken in the last one month?

**Prakash P. Chhabria:** Close to about 10%, for the quarter, **not the month for the quarter.**

**Moderator:** Thank you. The next question is from the line of Mehang Nayak from L&T Mutual Fund. Please go ahead.

**Mehang Nayak:** Good morning Sir. I just wanted to understand your forex loss a bit better, so this is the 54 Crores loss that we have added to exceptional items. What are the contours of this?

**Prakash P. Chhabria:** If you can kindly see the **notes my six** months result, what we have done to make it more transparent and more easily understandable. We have put a full chart over there, which shows the realized loss, profit and unrealized loss, profit. In this quarter, if you see the unrealized loss is about 59 Crores. Now what does it mean? It only means that the raw material, which is in stock, the moneys, which are owed to the supplier or to the bank as the case may be have still not been consumed, but it reflects on the particular day. So therefore it is an unrealized potential loss or gain, it is not a realized potential loss, there is an MTM, which we would like to reflect. So, if the payment let us say is due in October, November and if the rupee moves back to let us say 57. So that unrealized loss would actually become a realized profit. Because the inventory has not been paid for and there is a due not yet matured, therefore we reflect the MTM on that particular day.

**Mehang Nayak:** Your heading says that exceptional item represent foreign exchange loss or gain, settlement of claim against derivatives, these are what time forwards that you have purchased or what is it really?

**Prakash P. Chhabria:** The unrealized is not purchased, unrealized is open positions of foreign exchange contract. We have plain vanilla foreign exchange contracts.

**Mehang Nayak:** Okay being on net importer, we basically purchased dollars forward.

**Prakash P. Chhabria:** That is right. If you see the raw material is imported. Even the PVC prices in the country is dictated by the dollar rupee. So, even if you were buying PVC from overseas or you are going to buy from the Indian companies, you would have to pay the local PVC price multiplied by the dollar rupee as on that day and that is the same price that I also sell at. But what happens is that even though I start selling and change my price based on today's dollar rupee the inventory,

which is going to be consumed tomorrow, I cannot get that benefit till it is consumed. All the inventory is valued as if it has been consumed.

**Mehang Nayak:** That is the reported loss that you have booked?

**Prakash P. Chhabria:** That is why we have called it as notional loss; it is not a realized loss.

**Mehang Nayak:** Will that the loss that you take on the inventory, will that be compensated by the gain that you have on the forwards purchased?

**Prakash P. Chhabria:** During the course over the period yes.

**Mehang Nayak:** Okay, this is the net-net 59 Crores of unrealized loss?

**Prakash P. Chhabria:** Unrealized loss that could also become realized profit next quarter, next year.

**Mehang Nayak:** Okay, in FY13 as a whole we had 100 Crores realized loss and 4 Crores unrealized gain.

**Prakash P. Chhabria:** That is right.

**Mehang Nayak:** Okay, thanks.

**Moderator:** Thank you. The next question is from the line of Bhavin Chedda. Please go ahead.

**Bhavin Chedda:** Good morning Sir, good set of numbers. Sir, two, three questions, one is, if you can share the data in the production & sales volume of PVC resins also?

**Prakash P. Chhabria:** PVC resin as you know obviously is packaged, because in PVC resin, the expansion took place like three years ago. It is kind of flattish. The only time it does get affected is basically depending on the closure of the jetty because as you know our jetty is exposed to southwest monsoon, so depending on that, depending on the raw material coming in, it does affect and also shuts down everything, but still we were able to produce 61,000 tonnes of PVC during the quarter.

**Bhavin Chedda:** Which was almost flat on the YOY basis and what would be the merchant sale number, because majority would have gone for the captive of PVC?

**Prakash P. Chhabria:** Merchant sale keeps on dropping down it was hardly 18,000 tonnes.

**Bhavin Chedda:** Last year would have been how much Sir?

**Prakash P. Chhabria:** 31,000.

**Bhavin Chedda:** 31,000, okay and sir on the OPM front you would say there will be a time lag between the raw material cost pass on to the consumers. Would the operating margins are now back to 17, 18% which is dropped to 15.5%.

**Prakash P. Chhabria:** During the quarter it is expected it should get better.

**Bhavin Chedda:** Get back to historical, maybe 17%-odd?

**Prakash P. Chhabria:** Sure, except only if again the dollar rupee makes another major movement during this quarter it would again become a **predict of foreseeing** so, again what would happen that we would take our prices up, but the benefit or the debit for the inventory again would be during the third quarter?

**Bhavin Chedda:** Just on the power generation number if you have that on hand, can you share that?

**Prakash P. Chhabria:** Power generation has been pretty good; we have been running all out during the quarter. We generated about total of **70,123 million units.**

**Bhavin Chedda:** **70,120 million units.**

**Prakash P. Chhabria:** That is a mistake. It shows 70,123, which would mean units and as this is compared to 56,000 during the same period last year.

**Bhavin Chedda:** Sir, what would be the pending capex this fiscal would be?

**Prakash P. Chhabria:** The only project, which is to be completed, is Masar, the 20,000 tonnes expansion, which would hardly be I think another 20 Crores.

**Bhavin Chedda:** Another 20 Crores is pending?

**Prakash P. Chhabria:** Yes maximum.

**Bhavin Chedda:** Rest would go for debt repayments and all that?

**Prakash P. Chhabria:** That is right.

**Bhavin Chedda:** Sir, last question, is the spread between PVC and EDC is still intact? It is declining, improving?

**Prakash P. Chhabria:** It is still intact.

**Bhavin Chedda:** It is close to \$400 right?

**Prakash P. Chhabria:** That is right.

**Bhavin Chedda:** Thanks a lot.

- Moderator:** Thank you. Next question is from the line of Nihal Shah from Dolat Capital. Please go ahead.
- Nihal Shah:** Sir within the pipe segment, can you give us a breakup within the pipe segment and the agricultural pipe segment?
- Prakash P. Chhabria:** Agriculture is close to 70% and building pipes, non-agri is 30%.
- Nihal Shah:** Non-agri is around 30% and Sir, what is the kind of growth you have seen in both the segments?
- Prakash P. Chhabria:** We have been growing anywhere between 15% and 20% year-on-year every year, and we expect to continue doing the same.
- Nihal Shah:** If we further break it up between building and agri?
- Prakash P. Chhabria:** Roughly in similar proportion.
- Nihal Shah:** Sir, our EBIT margins in PVC Resin segment has gone down by around 300 BPS so that is because of the rupee depreciation in the last quarter?
- Prakash P. Chhabria:** The sharp depreciation in a small period of time. That is why.
- Nihal Shah:** Correct. Are we getting any benefit because of the global EDC prices coming down?
- Prakash P. Chhabria:** Yes. That is why I mentioned to you that the delta is good.
- Nihal Shah:** So, once the rupee starts appreciating that delta will definitely be visible?
- Prakash P. Chhabria:** Absolutely.
- Nihal Shah:** What is our hedging policy as of now?
- Prakash P. Chhabria:** At the moment we are close to 50% hedged. This was not as of today. We have been doing it let us say February and March. So depending on when the LCs are due and depending on what depreciation has happened during the time it gets reflected in the quarterly results.
- Nihal Shah:** Any facilities we have setup for the CPVC pipe segment. Previously we were importing. So, what is the target going forward for CPVC segment, pipe segment?
- Prakash P. Chhabria:** We have already set up our PVC pipe production facility for CPVC.
- Nihal Shah:** Whom are we sourcing the raw material from?
- Prakash P. Chhabria:** From two or three suppliers actually from the Japanese and the French.

- Nihal Shah:** So, it is from Arkema and Kaneka.
- Prakash P. Chhabria:** Yes.
- Nihal Shah:** Sir, last question the other income has gone up substantially from 2 Crores to 19 Crores?
- Prakash P. Chhabria:** That is because of redemption of our investments, mutual fund investments were redeemed.
- Nihal Shah:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from Mr. Ravindra Agarwal from HDFC Securities. Please go ahead.
- Ravindra Agarwal:** Sir, my first question is on the forex front. You said we are currently 50% hedged. So what is the rate approximately?
- Prakash P. Chhabria:** Average rate would be close to 57 to 57.5.
- Ravindra Agarwal:** You had earlier given the numbers. I believe for sales like 53,840 for PVC resin. What are the production numbers for the current quarter and corresponding period?
- Prakash P. Chhabria:** You are talking about?
- Ravindra Agarwal:** PVC Pipe and fitting?
- Prakash P. Chhabria:** Production versus sales is roughly the same because we hardly carry any inventory. So you can add another 2,500 to 3,000 tonnes to that as production, because the inventory during the first quarter is very less.
- Ravindra Agarwal:** On the domestic market, like the market size remains the same or has there been some change considering the overall market capacity?
- Prakash P. Chhabria:** The market is ever growing because as you know India's agricultural market is very big. India is still an **aggregating** economy, the land mass is huge. Only about 35% to 40% is under agriculture as of now and is ever growing, and as the population grows the food demand, the water demand will keep growing. So PVC Pipe is one of the products which have always been required. So you can let do without other things, but you will always need water and you will always need food. So wherever you go you need these two things basically. The only thing for free and available anywhere is oxygen and that is all and the rest of it you have to pay for.
- Ravindra Agarwal:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Viraj Acharya from Securities Investment Management. Please go ahead.



- Viraj Acharya:** Thank you for taking my questions. Most of my questions are already been answered. I just have one more question. Finolex Industries, has around 46% to 47% stake in Finolex Plasson. It is a micro irrigation Company. I just wanted to understand your perspective on how does it fit in an overall scheme of things. Like you said that 70% of your PVC pipes comes from agriculture related sectors and from a micro perspective around 40% of the total demand comes from irrigation for the PVC. So, if you can just share your thoughts on how does that particular investment fit in the overall strategy for the company?
- Prakash P. Chhabria:** It is a good investment for the company because like you mentioned, drip irrigation goes purely into agriculture and 70% of our pipes go into agriculture. The reason we keep hands away kind of relationship is because selling of drip irrigation products is totally different to selling of PVC pipes. And therefore to enjoy the value or to enjoy the benefit of being able to independently sell PVC Pipes and fittings without having to get into selling of drip irrigation by the company, it is better to keep it at arms length transaction. So therefore we are two separate companies separately managed and they are doing very good and we are also doing very good.
- Viraj Acharya:** Any plans to merge or acquire? Given the synergies, we have between the two companies, are there any plans to increase stake or merge it back with Finolex Industries?
- Prakash P. Chhabria:** Not at the moment.
- Viraj Acharya:** Just one more thing what is the turnover for that particular business and the margin profile. If you can share some color on that?
- Prakash P. Chhabria:** I cannot give exact number but it is close to 300+ Crores.
- Viraj Acharya:** What kind margins that kind of particular business would have?
- Prakash P. Chhabria:** I think between 15% and 20%.
- Viraj Acharya:** At the EBITDA level?
- Prakash P. Chhabria:** That is right.
- Viraj Acharya:** Thank you very much Sir.
- Moderator:** Thank you. The next question is a followup question from the line of Bhavin Chedda from Enam. Please go ahead.
- Bhavin Chedda:** Just if you can give some update on CPVC? What is your capacity runrate plan for that business for this year and next year and if you can give us the overall market update on CPVC Industry in India also? As I understand I think it is around 70,000 to 80,000 tonnes but growing at more than 25% if my understanding is correct on that business?

- Prakash P. Chhabria:** Let me give you some background. As far as my limited knowledge goes the total PVC production worldwide is close to 39 million tonnes, all PVC put together. Within that 39 million tonnes the total CPVC that is produced is hardly 70,000 tonnes worldwide. So, whatever PVC out of that comes to India is produced into CPVC Pipes & Fittings.
- Bhavin Chheda:** What is the Indian market would be and how is it growing?
- Prakash P. Chhabria:** I would guess Indian market would be about close to 40,000 tonnes per annum.
- Bhavin Chheda:** Okay and what is your capacity?
- Prakash P. Chhabria:** Our capacity should be close to 5,000.
- Bhavin Chheda:** How much you would be producing full 5,000 Sir?
- Prakash P. Chhabria:** Yes.
- Bhavin Chheda:** Okay and margins in this business would be an excess of 20% or how would you take so on, on margins?
- Prakash P. Chhabria:** Margins on CPVC pipe and fitting is I would in our case say it is less than U-PVC also.
- Bhavin Chheda:** It is less than U-PVC.
- Prakash P. Chhabria:** Yes, because the competition there is a lot. There are many players in that market now and what we see is that what was there two years ago is not there anymore. As you see CPVC pipe is a new entrant. Like I mentioned to you out of 39 million tonnes worldwide only 70,000 tonnes is made into CPVC is what we have gathered as knowledge as information as with so many players in India CPVC has now lost most of its steam.
- Bhavin Chheda:** Okay so this does not look to be a new growth opportunity in case of margins, volumes and you would not go aggressive on this?
- Prakash P. Chhabria:** One of the reasons we have not gone aggressive also is because if you see hot water in any apartment in any house is only from your geyser to your wash basin to shave in the morning and from your geyser to your shower to shower in the morning. Other than that there is no need or a requirement of putting CPVC. So there cannot be more demand than that. So that can only be like two meters per flat, whereas normal water requirement is all the way from your underground tank to your tank on top of the building then the distribution from the tank or the top to all the apartments, to all the flats, to all the wash basins, to all the flushes, to everything and then comes in your sewage lines, then comes your rain water harvesting. So therefore worldwide if you see CPVC is a very, very small player compared to U-PVC.
- Bhavin Chheda:** Okay thanks a lot Sir.

- Moderator:** Thank you. The next question is a follow up question from the line of Tanuj Makhija from Ambit Capital. Please go ahead.
- Tanuj Makhija:** Hi Sir my questions have been answered. Thanks.
- Moderator:** Thank you. The next question is from the line of Preeti Trivedi from Vantage Securities. Please go ahead.
- Preeti Trivedi:** Sir congrats on a good set of numbers. Just could you can help us to understand the seasonality in your business?
- Prakash P. Chhabria:** As you know we are India's largest PVC pipe manufacturer, which go into agriculture. All of us in the world follow a calendar called the **Gregorian** calendar but the monsoons and all of that they do not have any calendar. So whenever the rain starts falling it becomes impossible for the farmers or anybody to dig trenches and lay pipes and therefore at that time the season goes down. So in our business we cannot pinpoint exactly and say that April is bad or May is bad or June is bad or July is, basically it depends on monsoon of that year, whenever it starts and whenever it ends; a) after saying that b) as you know the monsoon starts from Southern India when it hits the tip of Kerala and moves up. So we never know when the southwest will start and move up to the central plains of India or move up north and while doing that certain pockets do not have rain and they were still our potential markets.
- Preeti Trivedi:** Okay and what is the portion of exports in your total revenue?
- Prakash P. Chhabria:** We do not export at all.
- Preeti Trivedi:** That is all from my side. Thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor back to the management for final remarks. Thank you and over to you Sir!
- Prakash P. Chhabria:** Thank you very much and we look forward to speaking to all of you during the next quarter results and in case any of you are traveling to Pune please do call us.
- Moderator:** Thank you Sir. On behalf of S-Ancial Advisors Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.