



“Finolex Industries Q1 FY-17 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Finolex Industries Q1 FY17 Earning Conference Call hosted by S-Ancial Global Solutions. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Milan Bavishi from S-Ancial Global Solutions. Thank you and over to you sir.

Milan Bavishi: Thank you Janet. Good morning everybody, welcome to Finolex Industries earnings call to discuss first quarter results. We have with us on the call Mr. Prakash P Chhabria-Executive Chairman, Mr. Saurabh S Dhanorkar-Managing Director and Mr. Anil Whabi- Director, Finance. May I request Mr. Chhabria to take us through his initial remarks and financial highlights subsequent to which we will have a Q&A session. Over to you Sir.

Prakash P Chhabria: Thank you. Good morning everyone, I welcome to Finolex Industries Q1 FY17 Investors conference call.

We are encouraged by our performance last quarter where we saw growth in pipes and fittings volume as well as a strong improvement in overall margins. For Q1 FY17 net sales were 672 crores, a growth of 6% year-on-year. Volume and revenue from the pipes and fitting segment grew by 14% year on year. EBITDA margin rose by 357 basis points to 23.7%. A strong improvement in margin can be mainly attributed to lower raw material cost for PVC resin. Finance cost was down from Rs.16 crores to Rs. 5 crores as we have repaid significant amount of loans during the last year. Going forward we expect the demand for pipes and fittings to remain strong mainly due to good monsoons, favorable government initiatives, steadily increasing distribution reach (now we have about 17,000 retail touch points across the country) and consistent branding initiatives across the country. All this is barring unforeseen circumstances.

I would like to mention here that our customer engagement and branding efforts are progressing at a strong pace, especially at ground level. I would encourage you to visit the news and events section of our website finolexwater.com to see the initiatives that happen each month. I'm encouraged by the demand prospects for the pipes and fittings in our country and Finolex with its high quality products, strong brand recall, CAPEX plans, pan India distribution reach, low debt, management bandwidth and favorable government initiatives is well positioned to participate in this growth story. I would also like to add that this conference call is going to be a last con call for Mr. Dhanorkar, our Managing Director who retires by end of October. During our last board meeting on Friday Mr. Whabi, our CFO has been promoted as a director on the board. So Mr. Whabi is here and today it's going to be his first conference call, will be answering most of the questions. Now I leave the floor open for any question answers.

Moderator: Thank you. We will now begin with the question and answer session. We take first question from the line of Sakit Kapoor from Kapoor & Company. Please go ahead.

- Sakit Kapoor:** First point if you could explain how the decline in the resin production volume vis-à-vis the rise in the pipe and fittings segments, how this correlation could be explained?
- Prakash P Chhabria:** There is no correlation because as you know PVC resin during monsoon is always low because of the jetty closure. PVC pipes keeps going because we buy PVC from outside so there is no direct correlation whether PVC production goes up or down and pipes production goes up or down.
- Sakit Kapoor:** We have sourced resins from external market for pipes?
- Prakash P Chhabria:** Exactly, the resin purchase is from outside and that's how we can make more pipes and we sell more pipes.
- Sakit Kapoor:** What have been the price trend, for this quarter, you told that it was on decline in this which have attributed to the profit and how has been now the price trend post June quarter?
- Anil Whabi:** Year-on-year basis the pipe prices have remained stable while there was slight movement in the PVC prices.
- Sakit Kapoor:** Whether upward or downward?
- Anil Whabi:** Downward.
- Sakit Kapoor:** Could you explain that in dollar terms what was it for the March quarter vis-à-vis the June quarter how has the price trend been?
- Anil Whabi:** March quarter the PVC prices average was about \$805 and when I said dropped; it is in comparison to Quarter 1 of last year. It moved from \$944 to \$869 in June quarter.
- Sakit Kapoor:** And the prices for the March quarter was 800?
- Anil Whabi:** \$805.
- Sakit Kapoor:** So March to June the prices have moved up.
- Prakash P Chhabria:** Yes.
- Sakit Kapoor:** And what is the trend post June quarter, how are the prices now?
- Anil Whabi:** Prices have improved slightly after June also.
- Sakit Kapoor:** This is now the full-blown monsoon quarter. We will have the impact of monsoons for this quarter also for the....
- Prakash P Chhabria:** Yes you will have monsoon impact in this quarter, in second quarter also.

- Sakit Kapoor:** In the September quarter also?
- Prakash P Chhabria:** Yes.
- Sakit Kapoor:** This trend for the resin production being down and pipes volume being up will also percolate for this September quarter also?
- Anil Whabi:** No, for September quarter as the history also if you see, the second quarter has always been low for the pipe segment because of monsoons.
- Sakit Kapoor:** There will be similarity in what it was earlier also.
- Prakash P Chhabria:** Yes.
- Sakit Kapoor:** Coming to the EDC and the chlorine prices and international situation for EDC. For chlorine, we source it domestically or we import that also?
- Prakash P Chhabria:** Chlorine EDC, we don't use chlorine we buy EDC.
- Saket Kapoor:** As earlier told our two raw material constituent EDC and chlorine or it is only EDC?
- Prakash P Chhabria:** Is not chlorine, it is EDC, it is ethylene and it is VCM.
- Sakit Kapoor:** How have the price trends been for EDC and ethylene? What is the international scenario right now?
- Prakash P Chhabria:** Price trend of EDC, ethylene and VCM has been quite steady. It has not gone up whereas PVC has gone up.
- Sakit Kapoor:** That would you attribute to the demand that has opened up?
- Prakash P Chhabria:** PVC price improvement is basically because of demand that is correct.
- Sakit Kapoor:** How much CPVC business have we done for this quarter and a comparative figure also?
- Anil Whabi:** In CPVC, in the current quarter we have done about 672 tons as compared to 636 tons last year, so volume is up by about 6%.
- Sakit Kapoor:** Value terms?
- Anil Whabi:** In terms of value, this is about 13.5 crores that we have done now as against 12.5 crores last year.
- Sakit Kapoor:** This is also the compound we have purchased?

Anil Whabi: No we don't purchase compound, we make our own compound. We purchase CPVC resin, we import resin.

Sakit Kapoor: What has been the price trend for the CPVC resin quarter-on-quarter?

Anil Whabi: CPVC resin price is not so volatile as compared to PVC price, so they are relatively stable. They don't move from quarter to quarter.

Sakit Kapoor: Now Lubrizol has come up with their capacity at Dahej of 55,000 tons for the compound. So how has the market now shifted and then also this Astral Poly ending its pack with Lubrizol, how is now this CPVC market now shaped up? How are we going to project ourselves in this segment?

Prakash P Chhabria: At the moment what we are seeing as we have been talking about for the last 2-3 years, CPVC is now becoming a commodity. It is more and more going to follow the pattern of UPVC. As time goes by you will see more and more suppliers of UPVC resin, UPVC compound and you will see more and more manufacturers of PVC pipes out of CPVC for that application. It's all okay. There are no surprises in it, it's all good. We are ready for challenges.

Sakit Kapoor: What kind of business are we looking for this going forward, our business plan for CPVC?

Prakash P Chhabria: Our business plan, we keep going every quarter in CPVC. We grow in double-digit and we are increasing our range also in all of these products. We have also actually increased our range in UPVC fittings also, so we are well geared for all.

Sakit Kapoor: Last con-call also or before you have also mentioned about your talks with DCW, the first Indian manufacturer of CPVC resins while preliminary talks with them. Have you now concluded anything because their capacity is about to be on-stream about 10,000?

Prakash P Chhabria: We are in touch with them so we are waiting for the production to go live. I'm sure they will first have trial productions and everything which actually I think are on the way already is what we understand. I don't know for sure but what I understand. So discussions are going on with them.

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

Basudeb Banerjee: Within this PVC revenue how much has been the captive's consumption and how much has been the external sales both in terms of volume and value?

Anil Whabi: Out of 62,000 tons that we have transferred, it is about 50,000 tons that we have consumed internally.

Basudeb Banerjee: And value wise?

- Anil Whabi:** Value roughly about 350 crores.
- Basudeb Banerjee:** This time you have stopped giving the break-up of pipes and fittings separately, so how to look at that because 14% overall volume growth. So broadly as we were expecting somewhere better volume growth even in the agri space looking at the peer sets. So how to look at that volume growth and within that what is the fitting this time because Astral also entering that segment, few fringe players also expanding capacities in agri pipe. So despite all good opportunities through irrigation focus GST coming in, so one how to look at the growth down the line and second what was the breakup of pipes and fittings separately?
- Anil Whabi:** 14% was the overall growth, in fittings it could be close to about 11%-12% but the volumes have been given on the website.
- Basudeb Banerjee:** And overall 14% volume growth don't you think it is slightly lower than the expectation level or is there any element of seasonality in that?
- Prakash P Chhabria:** It's always with the season. The first quarter season is always the best. If you look at it even the last quarter last year was a high volume. So 14% on a higher base is a big number.
- Basudeb Banerjee:** Last question is about outlook on margins, so this kind of margin expecting it to sustain I doubt what kind of level one should look at down the line in resin and pipe separately.
- Prakash P Chhabria:** For margins we are very cautious of giving any forward-looking statement.
- Basudeb Banerjee:** But about what led to this kind of high margin this quarter is and how to look at that from a subjective perspective?
- Prakash P Chhabria:** If you look at it very subjectively, it looks very healthy. So if I want to stretch myself and say and say what does the future look like, I would say the future looks very good.
- Basudeb Banerjee:** As you said the PVC prices are further inched up a bit in July month post last quarter numbers. So should one infer that chances of PVC margin being similar better in Q2 also?
- Prakash P Chhabria:** No, Mr. Banerjee you should not look at this business like that. You should look at the delta. Your question to me should be is that delta going to be the same get better or worse, nothing to do with PVC and EDC.
- Basudeb Banerjee:** So your PVC, EDC spread which you mentioned in the presentation....
- Prakash P Chhabria:** Is that going to be healthy is the question, so it seems to be healthy that's all I can say. I'm not able to put numbers but subjectively I can say, yes it is healthy.
- Basudeb Banerjee:** And CAPEX plan the remaining the same that is 30,000 ton per a number at 30 crores?
- Prakash P Chhabria:** Yes.

Moderator: Thank you. We have the next question from the line of Praveen Sahai from Edelweiss. Please go ahead.

Praveen Sahai: In this quarter we had reported any inventory gain because if I will see the prices of PVC hasn't moved up for this quarter?

Anil Whabi: Slight inventory gains are normal, are part of this business, so there is nothing substantial.

Praveen Sahai: How much is in fitting volume this quarter?

Anil Whabi: Total fitting volume is 3870 tons.

Praveen Sahai: Time in the value terms?

Anil Whabi: In value term 62 crores.

Praveen Sahai: We had opened our Cuttack for quite long, the warehouse. On the qualitative side as well how much of a market traction we are getting from the Eastern side of India?

Prakash P Chhabria: Eastern side of India actually growing at a very good double-digit growth. The Cuttack has really proved to be a very good investment. Yes, it took us a long time to stabilize and that was because as a company we were never used to having warehouses or anything like that. By learning from Cuttack from our mistakes and whatever we even have started Delhi and Indore. But again those locations were little bad, our contractors were not good which we changed. So our new contractors have come into place from 1st of March this year in 2016. I must say that our Indore and Delhi volumes are growing very steadily and I'm very happy with it.

Praveen Sahai: So that means in the North and East we are gaining the market share as well?

Prakash P Chhabria: Exactly.

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

Kashyap Pujara: I have noticed that while numbers across segments have been pretty good, the unallocated has moved up quite significantly. So could you explain the sharp deviation in capital employed in this quarter? Also the PVC segment the capital employed has moved down, so could you explain what this adjustment is?

Anil Whabi: In unallocated it is mainly because of IndAS effect where mark to market has to be done for the strategic investment.

Kashyap Pujara: If I were to see 72 crores negative versus 485 crores...

Anil Whabi: Debt level is coming down.

Kashyap Pujara: I didn't get you because the capital employed has gone up, so what have the mark to marketed? I can understand the PVC segment debt would have come down so maybe that is the reflection of capital employed but what about the unallocated?

Anil Whabi: In unallocated, we have strategic investments in Finolex Cable that we are supposed to value at the market price.

Kashyap Pujara: So there is no actual capital which has gone up?

Anil Whabi: No, of course not.

Kashyap Pujara: So the return on core capital employed is intact?

Anil Whabi: Yes and will continue to remain so.

Kashyap Pujara: My second question is related to Finolex Plasson because as per IndAS now we should be consolidating it and reporting as share of associates, so we would be doing that once a year is it?

Anil Whabi: Yes and we did this for FY 16 also.

Kashyap Pujara: So now in the first quarter what would that number be in terms of the profitability from Plasson?

Anil Whabi: No, we would be reporting at end of the year.

Kashyap Pujara: Is the outlook their positive I mean what is the thought there?

Prakash P Chhabria: The outlook for drip irrigation business seems to be good because if you will see most of the state governments are now learning from the experience of Andhra and Gujarat. So many states are coming up, sometimes the process is slow but it's a good new pipeline. It's all brand-new pipeline.

Kashyap Pujara: Basically we are seeing volume growth prospects opening up there, up is what we should...

Prakash P Chhabria: Yes in the agri pipe division.

Kashyap Pujara: And what would your overall growth guidance be for volumes for PVC pipes?

Prakash P Chhabria: As usual we can only say double-digit.

Moderator: Thank you. We take the next question from the line of Khadija Mantri from Dalal & Brocha. Please go ahead.

Khadija Mantri: You discussed East and North market for Finolex, how it is shaping up. Could you do the same for South and West as in are you able to maintain the same market share while there is competition increasing?

Prakash P Chhabria: Yes competition is increasing every day. There is no dearth of competition in this business. As you might be aware there are about 500 pipe manufacturers we compete with everyday. The South and the West have always been our strong markets and we will continue to do so. As these places are close to heart we will pay a lot of attention to them and it is going to be keep growing and it's always going to be our strong hold over there.

Khadija Mantri: I missed the number of stock keeping units that you announced at the start of the call.

Prakash P Chhabria: Right now we have got one in Cuttack; the second one was started in Indore and the third one in Delhi.

Khadija Mantri: Is it possible for you to provide PVC fitting volume for the last year's corresponding quarter that's Q1 FY16?

Anil Whabi: It is there on the website and I will give you also. Fitting volume in this quarter was 3870 tons while corresponding quarter last year was 3487 tons.

Khadija Mantri: In value term?

Anil Whabi: In value term 62 crores this quarter and previous year it was 57 crores.

Moderator: Thank you. Next question from the line of Druv Bhatia from AUM Advisors. Please go ahead.

Druv Bhatia: First question was on capital employed on PVC pipe and fittings, out of almost 100 crores what exactly is it inventory build-up?

Anil Whabi: There are three parts probably, one is the CAPEX incurred for the last year's capacity expansion and second is the slightly higher inventory and lower creditor level. These are the three factors mainly.

Druv Bhatia: First two the capital expansion and inventory could you give us the breakup on those two things?

Anil Whabi: That I don't have right now.

Druv Bhatia: On the pricing, is there was some conversation about the brand etc. what is the price difference for Finolex and some comparisons like Supreme, or the more organized players?

Prakash P Chhabria: On different products its different, so in agriculture we are about 9% premium or 10% premium to other people. In the non-agri business in certain products we are 2% premium and in certain products in the non-agri we are 2% average discount.

Druv Bhatia: The percentage of agri increases I guess that is positive for you from a margin standpoint.

Prakash P Chhabria: That is correct.

Moderator: Thank you. Next question from the line of Vipul Shah from Sumangalaya Investments. Please go ahead.

Vipul Shah: What is the debt reduction target for this year and where should we end the year at consolidated level at debt?

Prakash P Chhabria: I think now we have reached zero debt already. As far as long-term debt is concerned we added zero debt already. Now the only debt which will be there is only for our normal working cash flow.

Vipul Shah: This year how much pipe capacity we are going to add?

Prakash P Chhabria: We have kept the target of always adding about 30,000 tons production capacity in pipes.

Vipul Shah: So same CAPEX around 40 crores roughly.

Prakash P Chhabria: Yes.

Vipul Shah: Was there any adverse news from Maharashtra Agricultural Department for Finolex Plasson or I think somebody had sent me a WhatsApp so I just wanted a clarification from your side.

Prakash P Chhabria: There was some news but it was something not very....

Vipul Shah: There is nothing to worry for that part, right?

Anil Whabi: It's only a temporary setback which is being corrected and nothing to worry about.

Vipul Shah: We are making PVC from VCM also, right?

Prakash P Chhabria: Correct.

Vipul Shah: What should be the volume of PVC we made out of that raw material or margins are same for both EDC and VCM?

Prakash P Chhabria: No, definitely not but in the first quarter every year we don't have that much VCM stock because we shut down the jetty for monsoon so therefore the production output of PVC out of VCM is always very low.

Vipul Shah: On an annual basis what should be the ratio out of EDC and VCM and if you can give annual margin picture for both the raw materials that also will be helpful?

Prakash P Chhabria: The annual healthy delta between PVC and VCM that we look at is anywhere between \$150 to whatever higher so that usually is there. There are some time mismatches between the time you book and the ship comes and you consume it. But usually that \$150 is maintained and higher. That comes in the PVC-VCM chain, in the PVC-EDC delta it keeps changing quite often...

Vipul Shah: EDC that's much higher...

Prakash P Chhabria: Yes much higher.

Vipul Shah: Why we manufactured out of VCM then because we have one line dedicated for it?

Prakash P Chhabria: Yes one line is dedicated for it and the reason we did is twofold. A) When you set up just a PVC plant like what we did five years ago, the CAPEX is very low so the availability of PVC at that time was required so we were able to match it and we were able to do it very quickly. B) We then have the flexibility of producing out of VCM versus also EDC ethylene. So this gives an advantage in the market because the raw material market is very dynamic. So this allows us to import VCM in bulk so at times when there is a shortage not shortage but the delta is not good on EDC ethylene then one can produce more out of VCM also.

Vipul Shah: So it's more about flexibility of using raw material?

Prakash P Chhabria: More flexibility and less CAPEX.

Vipul Shah: But annually what should be the percentage of PVC resin produced out of VCM?

Prakash P Chhabria: 150 will be out of EDC route and about 110 will be out of VCM route.

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

Ritesh Shah: My first question is on EBIT margins. In the earlier question you indicated that the margin expansion was on back of lower PVC inventory stocks. Then how is it that the EBIT margin for PVC pipes and fittings is largely flat on year on year basis but for PVC pure resin making operations, it has increased by around 500 bps to around 22%. So was there any inventory gain on EDC-VCM or ethylene stocks which has resulted to margin expansion for the quarter?

Prakash P Chhabria: Let me clarify, in PVC the PVC prices started inching up slowly whereas the raw material was already in the tank and the raw material prices were flat. So therefore the delta has increased over there and direct increase of delta infused that increases your bottom line. In PVC pipes, it is like mark to marketed every week, every month so if PVC prices go up then the PVC pipes prices go up also.

Ritesh Shah: So it's purely on back of low-cost EDC ethylene that we had during the quarter?

Prakash P Chhabria: Yes that's right.

Ritesh Shah: Second question is on distribution, how do we look at the incremental warehouses? What are the timelines that we are looking at? You indicated that we will have three warehouses, one is operational and other two are work in progress, how is your strategy on this front?

Prakash P Chhabria: Strategy is because we are increasing our SKUs and handling everything just from Pune becomes very difficult for the dealer. We are able to handle it but for the dealer to handle higher number of SKUs becomes difficult. So what we are trying to do is bring the product available to the dealer as close as possible which is very easy to say. But with so many SKUs it becomes more complex for us to be able to manage four warehouses and we want to go up to another two more, so making it six warehouses totally. We are working on that and I am hoping we should be able to add another two in the next six months.

Ritesh Shah: So we can expect around six warehouses by end of the year?

Prakash P Chhabria: That is correct.

Ritesh Shah: In the earlier conference call you had indicated the total number of SKUs that we had is around 13,000 and over next 12 to 18 months we are planning to launch another 400. What is the status on this if you can please help us with some numbers?

Prakash P Chhabria: No, SKUs is not a 13,000, SKUs is 1300. But with your good wishes one day we will reach 13,000 also. So the 1300 has become now close to 1500 and what we did also in the last quarter was a new product range in our line, it is called integrated rubber ring, SWR pipes and fittings. This is something very different to the normal in terms of pipes and fitting. What we have seen in the last one month and a half, the demand as well as the future requirements for that product is very exciting. We had couple of roadshows, actually we had four roadshows in four different cities where we met our dealers, where we met our salesman across the country. The feedback that I've received from each of the places is very good.

Ritesh Shah: How do you see the competition in likes of Astral, they are also getting in agri-pipes. So do you foresee any pricing pressure in the segment that we are number one right now?

Prakash P Chhabria: The market in agri-pipe is huge, it is not a niche market it's a huge market and it's across the country. As far as we look at it, we look at competition being good. I actually think more competition, healthier competition is always better because it keeps us also on our toes. So it's good for us and I think there is nothing to be worried about.

Ritesh Shah: You did indicate in the previous questions that we were in talks with Lubrizol, did I hear it right?

Prakash P Chhabria: No, we didn't say we are in talks with Lubrizol.

Ritesh Shah: So are we in talks with Lubrizol or if an opportunity is thrown open to us is it something that would excite us?

Prakash P Chhabria: We are always open to talk to everybody because it's not just one company. There are many companies now coming out of CPVC. So in the next six months to one year you will see it's going to become flooded with CPVC now. Just to complete the last question, what we spoke about was DCW.

Ritesh Shah: If you could please give the regional split of our volumes. I think to my understanding West and South is 40% each and North is around 20%, are these numbers correct?

Prakash P Chhabria: Yes something like that.

Moderator: Thank you. Next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Are we having any planned maintenance scheduled for the PVC resin plant in this quarter?

Prakash P Chhabria: We always have a scheduled maintenance plan every year.

Maulik Patel: But I recollect that in 2014 calendar year we had a one big shutdown and that impacted our....

Prakash P Chhabria: No, there are two types of shutdowns, one which is a big shutdown and one which is like a small maintenance shutdown. So this year is only a small maintenance shutdown.

Maulik Patel: There is not going to be any impact on the volume?

Prakash P Chhabria: No.

Maulik Patel: On the overall market from geography wise. We did discuss that the Maharashtra is now doing well. Which are the states which are showing good growth?

Prakash P Chhabria: The states which are showing good growth basically first of all are our home markets Maharashtra, Karnataka, Tamil Nadu, Andhra and Gujarat these are very strong. When I mean Andhra means Andhra plus Telangana together. So these are real home markets and these are going very strong.

Maulik Patel: This should comprise approximately (+80%) of our volumes?

Prakash P Chhabria: Yes close to.

Maulik Patel: What could be the traction as we in earlier questions discussed on the Eastern side? What is the traction we are getting on the northern side of the country?

Prakash P Chhabria: The demand is picking up over there in the north and like I said the Delhi and Indore we are finding as a good investment that we started the warehouses. Actually when we started last year it wasn't doing good so we thought we are making a mistake till we found out that the mistake was in our contractor, not in us. So we were actually lucky that in 6 to 7 months we

were able to shut it down, start a new one, starting we were little careful, extra careful I would say so it took us more time. But now like I said from 1st of March I'm saying a lot of good response is coming in from that area.

Moderator: Thank you. Next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: My question also pertains largely towards Maharashtra only so I think that's a state which is being suffering for the last couple of years because of poor monsoons. So the revival in demand that you have seen is it on the back of monsoons improving this time or is it something else?

Prakash P Chhabria: What you will see now that the monsoon this year has been good. I am expecting if you look at historically and looking at the new things which our government is doing, which our Prime Minister is doing I think going forward things will be better actually.

Achint Bhagat: But from a more agri-perspective and the farm perspective.

Prakash P Chhabria: I'm talking about the agri part.

Achint Bhagat: Even I'm talking about the agri part only that in previous years in which you have seen a good rainfall, what is the lag effect that you start seeing in pipes so is it like after a good monsoon season in the next two quarters you start seeing volumes pick up on is there a lag period between pipes...

Prakash P Chhabria: There is a lag period but let me be honest the lag period can be anywhere between two weeks to two months. There is no real number which anybody can tell you then exactly 18 days this would happen.

Achint Bhagat: The second question was on the Telangana government, you mentioned about that. The government is spending a lot on irrigation is what my sense is. So does that have a rub-off impact on plastic pipes as well or that is largely concrete pipes?

Prakash P Chhabria: The project which you are referring to Telangana is what they are talking about is bigger sizes pipes and bigger sizes pipe does not come in PVC.

Achint Bhagat: So even the last level transport from...

Prakash P Chhabria: Exactly so I was just coming to that. So what happens is the big pipe is non-PVC but the last mile where you require more volume of pipe is PVC.

Achint Bhagat: Any traction that you are seeing from there?

Prakash P Chhabria: No that will take time. They have just announced it. By the time they put in the big pipes tendering and everything that will take time. It's within the pipeline...in the funnel.

Moderator: Thank you. Next question is from the line of Sakit Kapoor from Kapoor & Company. Please go ahead.

Sakit Kapoor: In continuing with my earlier query what is the capacity addition in the pipe segment that we have done for this quarter and what are we planning going forward for this year?

Prakash P Chhabria: No, our production capacity is usually added on year-on-year so it is not divided to quarter to quarter.

Sakit Kapoor: The ramp-up will happen quarter wise only or it will come in one quarter itself?

Prakash P Chhabria: No, it will happen over the quarter that is correct. But what we do is we monetize only our year-on-year.

Sakit Kapoor: What will be the addition for this year for March '17?

Prakash P Chhabria: We should add about 30,000 tons.

Sakit Kapoor: This growth is mainly in the agriculture part that we are attributing this capacity in addition to?

Prakash P Chhabria: Its for both agri and non-agri both.

Sakit Kapoor: The mix is factored towards the agriculture because you said that there is great impetus in the agricultural segment.

Prakash P Chhabria: For 70% of our business is agri, so 10% in 70% is huge compared to even 20% growth in 30%. As we are open to whichever growth so right now actually we are seeing there is more and more growth in the agri pipe as you know residential, commercial buildings are not coming up that fast or that much. So for us it is good because an extruder is an extruder and we being a pan India and that too in agri we are able to reach out different places.

Moderator: We take the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Just a follow up question. If I look at the pipe margins overall volume is been doing fine but on the margin per se per ton basis on a YOY basis we are bit flat. Going forward what would your sense be in terms of higher value addition in terms of better product mix and what would your view be on where you would like to take the margins in the next two years?

Prakash P Chhabria: Margins are always changing reason because of demand and supply. So first quarter usually you will see better margin, second quarter the margins will drop down. I'm talking about now pipes.

Kashyap Pujara: My question is also on pipes.

Prakash P Chhabria:

At times what we see is there are certain times when the market is giving you a more margin on the pipe business if there are more of the government business is happening. Like in the first quarter this year there wasn't many more government businesses happening. So many people were out in the retail market so when many people come into the same retail market then there can be a slight correction or slight pressure in the pricing or we can have more pricing. Going forward what I see is our government is doing a lot of work on the ground whether it is in infrastructure which also requires a lot of pipes. You will be surprised when the government talks about roads and highways that itself is a brand new markets for pipes. In each kilometer of road requires a lot of PVC pipe and for two reasons, one is for the cabling and second is for drainage, drainage not along the side but drainage to seep away the underwater of the road. So these kind of things when they happen, now going into why first quarter was good, why first quarter was bad is again too dynamic. And what we tried to do is push more volume out and try to maintain healthy margins. But there is no way of maintaining and healthy margin saying I will keep a 10% margin or I will keep a 20% margin. In this business we have seen it cannot happen. In this business you have to be more flexible and more agile that is what we keep doing.

Kashyap Pujara:

That I completely understand. My question was while volumes are pretty strong for the piping front, the conversion that we were originally the entire thesis the backend is more CAPEX savvy the frontend is more asset light we tried to do more of pipes by consuming in-house raw material that all is going smoothly as envisioned by us. Now what my thought was how do we now move the margins by improving the product mix of the piping segment which is the B2C segment. So while volume growth is fine are there any products or can we take the fitting portion to pipe topline a bit higher and get more margin out. Can we introduce a more products in that segment which can actually be more accretive to margins per ton, so gradually over time as volume moves up we also start seeing the mix of products manifest itself in per ton margins, so that is what my question was?

Prakash P Chhabria:

What you're saying is absolutely correct. But if you see out of 200,000 tons I am taking 200 as a round number, if 70% is agri which is 1,40,000 tons. In 1,40,000 tons you bring a new product which will give you higher volume let's say column price. By the time column price comes up and bring in some big dent in the higher margin is still going to be a while away.

Kashyap Pujara:

Right now it is going to be more of volume driven upside with margin protection.

Prakash P Chhabria:

For me it is good to say make PPTs and say that 'okay we will do this and do that'. But factually speaking if you do normal analysis it's very difficult to do all these things. Just to say is easy but to achieve it's very difficult. We don't believe in talking what we can't achieve so that's out of the question.

Kashyap Pujara:

Just a question on the resin business. Now our jetty would be shut because of the monsoon and all materials we would have kept the inventory at hand and since PVC is the one which is going up, it's fair to assume that the spread that we have on the business can get better but will surely remain intact that is a right thesis to arrive at?

Prakash P Chhabria: That's a very good thesis to arrive at.

Moderator: Thank you. We take the next question from the line of Sakit Kapoor from Kapoor & Company. Please go ahead.

Sakit Kapoor: You were explaining about the growth, even 10% growth in the agriculture side contributing to a higher there. So I missed that later point what you spoke about.

Prakash P Chhabria: Just before you came in I was just talking to Mr. Pujara and I was trying to explain to him the same thing also. If we take a round number of 200,000 tons of PVC pipes and we say 70% that is 1,40,000 tons in agri and Mr. Pujara was also mentioning the same thing about introducing new products with higher margin which is good to say. But what I was trying to tell him is that any new product which comes in because of its low volume base with whatever high margins might have the dent it will create on the overall scenario is still going to be very small.

Sakit Kapoor: The growth will be in the agri segment that is a nutshell part of it.

Prakash P Chhabria: Yes.

Sakit Kapoor: So it is the major share of it, so the growth is going to be there in that segment.

Prakash P Chhabria: Higher volume and higher margin is what we are looking at, not higher margin and lower volume.

Sakit Kapoor: Come into this finance cost benefit. This finance cost benefit is going to percolate over, this is the new means this figure would be of 5-6 crores in coming quarters?

Prakash P Chhabria: It will go on like this only.

Sakit Kapoor: For last year used to pay 16-17 for every quarter that has gone down to 5 so which is the new era of lower finance cost is going to continue because our....

Prakash P Chhabria: Our target is to keep reducing quarter-on-quarter.

Sakit Kapoor: The Quarter 2 and Quarter 3 are generally the soft quarter and this year is also there will be no difference in that. And we will be having softer quarter for September and December because growth again picks up in the March quarter.

Prakash P Chhabria: Yes because our business is such, it's a seasonal because pipes and fittings business if you see during the monsoon time it is impossible for people to lay pipes and this has been happening every year, so this will happen this year also.

Sakit Kapoor: It will percolate to the December quarter also since it is a pent-up like you told earlier?

Prakash P Chhabria: No, I cannot predict what will happen in the third quarter. But second quarter monsoon effect can happen in the third quarter or cannot. Like I had answered the question earlier, the time taken after monsoon for things to pick up can be either two weeks or even two months. So there is no definite rule which says that if monsoon stops today in five days pipe demand will start. There is no definite rule like that.

Sakit Kapoor: But the growth which we are looking from the government sector there should be definite time period for which it should come on the ground. It cannot be only on papers that government wants to execute projects that has to be on ground and there has to be some time line for which...

Prakash P Chhabria: I think government is very serious about executing projects and you will appreciate which I appreciate a lot for them because the country is huge geographically, from north to south, east to west. So even if they have full gear up everything to do every day everything cannot start in one day, so it's going to start up in pocket, it will start up in patches, it will start up in a time frame slowly. And I look at it as a good thing that if things come up slowly because that gives a chance and opportunity to everybody to gear up. A funnel is always better than a just a sudden bloating up demand.

Sakit Kapoor: Last year we have received also some incentives due to our completion of projects from the Maharashtra Government. So for this year that portion is going to come in the second quarter that some part of payment of 20-25 crores.

Prakash P Chhabria: The payment comes in but it is basically for year-on-year. It can come in any time but actually the number is four year-on-year. But because it comes into a particular quarter we show it. But actually the whole amount is for year-on-year.

Sakit Kapoor: Have we received it for this March '17 or we're going to receive any talks on that? That will improve our liquidity position further.

Anil Whabi: Last year was accumulation of number of years, so if you look at this year the amount will not be significant as compared to last year.

Sakit Kapoor: What will be the amount for this year?

Anil Whabi: Last year it was about 86 crores that will be a total amount will be roughly about 5 to 7 in a year.

Sakit Kapoor: This will continue for how many years 5 to 7 year?

Anil Whabi: It should continue up to 2018.

Sakit Kapoor: Earlier also I have pointed out to the liquidity in our shares which are traded everyday is very low. So due to this there is a huge volatility in the prices even at very small quantity getting

traded on exchanges. What is the management outlook of splitting the shares increasing so that greater retail participation also can happen because you see that you're holding around 52% to 53% is not coming to the market and other than that also there is not big liquidity and price variation is huge even if few lakh shares get traded. I requested for this stock split earlier also Finolex Cables has already done years ago, so have a contemplative anything on it?

Prakash P Chhabria: We had contemplated. But because certain things happen we stopped everything. Now we will be looking at in the next couple of board meetings and we will take action on that.

Sakit Kapoor: Which we can look forward to that. We also provide an advertisement in Times of India for fortune I think Mr. Anupam V Kapil wherein finolexwater.com ad is given, what is the analogy to get advertisement for a fortune teller for our company?

Prakash P Chhabria: The analogy is that Times of India has got 24 editions across the country every day so with this we were able to go piggy back on this Finolex Fortune thing to be in 24 locations every day at a very good price-point. And our customers are not restricted only to rural, it's also in the urban market so this allows us to be in front of over customer every day. Astrology is a subject which I think many people in India follow, so I think it's working well. I think we will continue doing it.

Sakit Kapoor: You were talking about that market is going to get flooded with CPVC material and scarcity will be thing of past now. But as per the volume we are doing very nascent volume around 13-14 crores. What is our business plan? Now availability of this material is going to increase with every passing day, so have we chalked out any plan for re-branding CPVC pipes and fittings in the way Astral is doing or any strategy on that if you could share something on that?

Prakash P Chhabria: We don't follow anybody else. But yes we have growth plans and we will keep growing. What I have been saying is it is now a commodity and as the years go by you will see that becomes more and more of a commodity product. Availability of raw material will definitely make it easier and more available for all our customers also.

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

Basudeb Banerjee: Just missed out the production figure for PVC resin, PVC pipes fittings and power this quarter.

Anil Whabi: PVC resin production was 59,756 tons and pipes and fittings about 67,000 tons, power was about 55,000 mwh.

Basudeb Banerjee: Power has improved slightly in last 3-4 quarters.

Prakash P Chhabria: Yes.

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

Ritesh Shah: Any update on the land side monetization?

Anil Whabi: None so far.

Ritesh Shah: Anything on the dividend policy given we have limited CAPEX like you have announced around 30 KT of capacity addition every year. I presume it will be a Brownfield and given the cash flow that we have obviously we will have a pile of cash to live with. So how are we looking at it as it like we will have... probably we will go aggressive on the CAPEX plans going forward or should one expect higher dividend payout?

Saurabh S Dhanorkar: Ritesh this question really is something which only after a board meeting we can attempt to answer. This is not something to be discussed. But we have been giving 55% to 60% payout and with healthy cash flows you can only expect it to continue or improve. But obviously a perfect answer cannot be given plus now recently SEBI has come out with the notification where dividend policy will have to be declared. So presumably the next board meeting or so we will have to anyway make it public.

Moderator: Thank you. We take the next question from the line of Druv Bhatia from AUM Advisors. Please go ahead.

Druv Bhatia: On the PVC resin which is internally consumed and externally sold, what is the price cap which will be there which we procure from outside and your own.... Would it be fair to say that the prices are similar?

Anil Whabi: Yes.

Druv Bhatia: So there wouldn't be any much difference where we will have an impact on profitability?

Anil Whabi: No there won't be much difference just because what we consumed the cost involved is lower because of packing or transport. So obviously price realization is also lower but the profit margin would remain roughly same.

Druv Bhatia: If I look at just quarter's EBIT per ton then I understand this business is not to be looked on a quarterly basis. But this quarter PVC EBIT per ton was almost 14,200 which is a 30% odd growth.

Prakash P Chhabria: Yes.

Druv Bhatia: Is there a level where you maintain saying that anything about this level probably it will be invested in something which you are doing, in new SKUs or new geographies or new distributions, what is the thought on that?

Anil Whabi: I think you are mixing PVC with pipes.

Druv Bhatia: I'm saying PVC pipes.

Anil Whabi: No, this margins that you talked about is in the PVC segment not in the pipe segment.

Druv Bhatia: Yes.

Anil Whabi: So in PVC segment we are not intending to grow...

Prakash P Chhabria: There is no CAPEX in PVC.

Moderator: Thank you. We take the next question from the line of Sakit Kapoor from Kapoor & Company. Please go ahead.

Sakit Kapoor: How are we seeing the international market for this raw material? How is availability there and how was the price trend? What can we expect going forward, any further new capacities coming up in the EDC market from China? What are the utilization levels for your supplier also?

Prakash P Chhabria: I will not have utilization levels of suppliers because they are all wide spread out and they don't necessarily give out information. Most of the companies are based out of Middle East and there is no information available from them. As far as China is concerned we do not buy any EDC from China because I don't think China export any EDC, not to at least India. I don't think so.

Sakit Kapoor: Any new capacity that is coming up in the near vicinity?

Prakash P Chhabria: They are talking about capacity expansion of EDC somewhere in North America only, not anywhere else.

Sakit Kapoor: Who are our suppliers, from where do we procure?

Prakash P Chhabria: We buy from Middle East and North America.

Sakit Kapoor: Then this North American capacity what is the percentage increase that is expected and how can it affect the pricing going forward?

Prakash P Chhabria: Percentage of?

Sakit Kapoor: What percentage of new capacity they are adding?

Prakash P Chhabria: I will not have that information.

Sakit Kapoor: But generally the price trend has remained somewhat flattened over the last year because crude also is stabilizing in a band of \$10 which we are not expecting any exaggeration in prices or the raw material.

Prakash P Chhabria: What you are saying is correct. What we have also seen in last one year if you see crude has been in a narrowband. Therefore the raw material prices have also been in a very narrowband. So if this continues then yes it should continue like that only. I really don't see anything otherwise making the prices to go changing too far.

Moderator: Thank you. We take the next question from the line of Vipul Shah from Sumangalaya Investment. Please go ahead.

Vipul Shah: GST rate of 22% is floated around in newspaper so what impact will it have on our company if it finally comes at 22%?

Prakash P Chhabria: Let us see Vipul, it's too far, one year to go I think. There will be so many news which will keep coming out in the newspaper. And even if it comes to 22% today we are close to between 18% and 20% actually...what I read of GST is finally it is going to be efficient. So even if let us say 20 out of 22 the efficiency itself will take care of the 2% increase. I really don't know.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Milan Bavishi for his closing comments.

Milan Bavishi: Thank you everyone and have a nice day.

Moderator: Thank you. On behalf of S-Ancial Global Solutions, that concludes this conference. Thank you for joining us and you may now disconnect your lines.