



“Finolex Industries Q2 FY2018
Earnings Conference Call”

November 13, 2017



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*Finolex Industries Limited
November 13, 2017*

Moderator: Ladies and gentlemen good day and welcome to Finolex Industries Q2 FY2018 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ritesh Shah from Investec Capital. Thank you and over to you, Sir!

Ritesh Shah: Thanks Janice. Good morning everyone. Welcome to Q2 FY2018 conference call of Finolex Industries. The management today is represented by Mr. Prakash Chhabria, Executive Chairman and Mr. Anil Whabi, Director (Finance) and CFO. I will now hand over the floor to management for opening remarks post which we will open the floor to Q&A. Over to you Sir!

Prakash Chhabria: Thank you Ritesh. Good morning. I welcome you all to the Finolex Industries Q2 FY2018 Investor’s Conference Call. The total income from operations was up 4% that is 4.75 billion for Q2 FY2018 versus 4.57 billion for Q2 FY2017. The sales volume for PVC resin was flat for Q2 FY2018 compared to Q2 FY2017. This includes captive sale. The sales volume for PVC pipes and fittings was at 47246 metric tonnes versus 38266 metric tonnes that is up by 23%. This has been the highest ever jump in volume. EBITDA was down by 43% to 496 million versus 870 million and PAT was down by 45% to 283 million from 530 million. The segment wise breakup for the drop in EBIT is about 360 million and the breakup is as follows. PVC resin was about 180 million. The PVC resin plant was under planned maintenance shutdown for about three weeks in Q2 FY2018 resulting in lower production as compared to Q2 FY2017 though sales including captive of almost the same as the inventory was reduced.

The total impact of this was about Rs.6 Crores. During Q2 FY2018 18% of production was through the VCM route compared to 3% during Q2 FY2017, which resulted in higher raw material cost. Further the PVC EDC spread was also lower compared to Q2 FY2017 and the impact was about 120 million. Along with this the captive power plant was also shut due to maintenance and impact of that was about 65 million. The pipes and fittings was down by about 115 million and this is basically because the moderation in the sales realization for the pipes and fittings continued during Q2 FY2018, but we are very happy with the increase in the volumes. We feel overall that GST will be beneficial to the company in the long run and we expect the demand for PVC pipes and fittings to continue growing as the monsoon has generally been good across the country and this should be positive for the economy as well as the agriculture sector. I would now like to leave the floor open for questions.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Maulik Patel from Equirus Securities. Please go ahead.



Finolex Industries Limited
November 13, 2017

Maulik Patel: Thanks for the opportunity Sir! Couple of questions, one is basically PVC EDC spread, which was healthy in Q2, but we were holding that old inventory so we could not gain that, but Sir what is the outlook now in a way that the PVC prices were corrected a little bit in the month of October and November so far, so what could be the outlook going forward and why the PVC prices are coming down?

Prakash Chhabria: The EDC, PVC spread has narrowed a bit you are right because the PVC prices have started going down slowly and the reason PVC starts going down is because of various reasons, but usually in the month of December PVC prices do go down and it is basically what I have observed is because of the financial year ending of the western countries, so they plan to clean up their warehouses and their balance sheet, so that is why I think they do that and secondly usually in the month of January there is a chinese New Year, so people try to buy whatever or start buying less, so that they are also light during January and China is the biggest player in the market for PVC, so they make all the difference. Going forward you are absolutely correct we did not get the full benefit of a healthy spread of the second quarter because of our jetty closure, so it looks nice, but again the reason I do not give out any future prediction is only because of uncertainty, so right now it looks good, it could get better, it could get worse, but it is changing, so to be able to predict is very difficult, but at the moment I can say we are good.

Maulik Patel: Second question is on the pipe margin and we have seen in your competitors numbers also the margin has come down because there was a significant restocking in the month of July, August, which is also seen in your volume number, but we have to give such a high discount that the margin has come down to such a low number?

Prakash Chhabria: It is not necessarily high discount, I would say it is a volume game, so for volume sometimes you have to do go into the market to try and capture whatever is there. Now what we had expected on July 1, 2017 that first whole July month will go and by the time we will recover be August, September that did not happen. Actually middle of July only the volume starts picking up and when we saw the volume in the market we had to take corrective action and either we could have had less volume or even negative volume and may be higher profitability, but we said it would be better to try out a better volume game because as you know we were working aggressively on our capacity, so with a higher capacity we want to test what is to see and very happy, see to be able to physically ship out 23% higher volume terms in pipes and fittings also is a big exercise, so it is helping us to look forward to have a better and healthier future.

Maulik Patel: In terms of that for the investors are also looking for the stability in the margin and if you look at the competitors our margins are relatively lower against the competitor, the volume growth has been good and it has been appreciated, but at least some kind of a stability is required in the margin to have some kind of projection because what is the challenge for the investors is that the margin keep moving very volatile and one of the investment case has always been that our margin will improve going forward?



Finolex Industries Limited
November 13, 2017

Prakash Chhabria: I totally agree with you, but the whole past 12 months since the demonetisation and then this GST and then GST was supposed to come in April then became June then July whatever. All of that has not been there before, so for us also we are testing new water and I am still very happy about this GST because I think long-term for us for the country is very good and if there is going to be a short-term pain I think it is going to be there because that is how it works, you cannot have an immediate remedy. So I am very happy, I totally agree with you that stability and I will be more happier than you if there is stability. The dynamics is such that I can just wait on the shore and say I am waiting for stability or I jump into the water and see how deep the water is. I believe that one should have action; therefore I jump in to check out things.

Maulik Patel: Sure. Sir I think one question is that basically the last question is you already mentioned about this GST and there has been a talk that the unorganized segment, which is 40%, 50% of our market they will find more difficult to operate in a GST environment because is this really happening, have you seen that, you have seen your distributors coming to you more often than the unorganized players?

Prakash Chhabria: I think part of that has been answered by the volume growth also and part of it what we understand from the market is that as you know everybody struggles, there is not one person who jumped in the water is not struggling, anybody give up, but what we can see, what we can understand, what people are telling us is yes there are a lot of companies in the market, which are facing issues.

Maulik Patel: You see that there will be a healthy growth or market share gain for the organized players going forward?

Prakash Chhabria: I think so unless if there is a new reform coming, a new notice comes out and says okay we are going to relax the rules by ABCD then again things could change like the slabs have been coming down, so if something else come down, given the current situation definitely yes.

Maulik Patel: Last book-keeping question what could be the volume of the fitting in our pipe volume and what could be the CPVC volume approximate number could be helpful?

Prakash Chhabria: Our agri, non-agri continues to be close to 70:30 and fitting volume was 4214 tonnes versus 4000 tonnes.

Maulik Patel: Thank you very much Sir! We will get back to you in the queue for more questions.

Moderator: Thank you. We take the next question from the line of Sonali Salgaonkar from Bank of Baroda. Please go ahead.

Sonali Salgaonkar: Sir thank you for the opportunity. Sorry I joined in the call a little late, so could you please briefly highlight what were the reasons for this gross margin dip in Q2?



Finolex Industries Limited
November 13, 2017

- Prakash Chhabria:** There is basically three parts, PVC resin had an impact of 180 million that is because of a planned maintenance shutdown for about three weeks and this included a power plant shutdown also because the PVC plant was not there, so which was about 65 million and the PVC pipes and fitting was 115 million.
- Sonali Salgaonkar:** Considering that some of the reasons for this margin dip are one off, what is the steady state operating margin level that you expect in FY2018?
- Prakash Chhabria:** You are basically asking the same thing, which Maulik asked earlier. The issue is we are not able to give out statements on stability and things that is the only reason because there is a lot of volatility in the market, for example if you see even though not directly connected to crude it is impossible for anybody to say what will be the price of crude on January 1, 2018, February 1, 2018, March 1, 2018 we can have a range, we can have a band, so therefore we stay away from giving the future statements, but what we look at is volume growth and looking at the current situation, looking at the second quarter situation we are very happy about our volume growth. Even though I will be the happiest person to be having what you can call a stable or a steady margin, but the business is such, it is not correct on my part and it is very difficult also to give it.
- Sonali Salgaonkar:** Do you foresee this kind of price moderation to push volumes to continue over H2 FY2018 as well considering the market condition?
- Prakash Chhabria:** H2 FY2018, so you are asking the same question in a different format Madam. I am telling you we are very aggressive for volume growth and hence our PVC pipes and fittings volume growth was 23% for Q2 and going forward we will be pushing volume. We will keep looking out for volume.
- Sonali Salgaonkar:** What is the ramp up in the CPVC business, could you give any highlights in terms of distribution or SKUs at present?
- Prakash Chhabria:** Yes we have now reached our SKUs of 150 for the CPVC fittings.
- Sonali Salgaonkar:** Sir in terms of distribution do we have any?
- Prakash Chhabria:** Number of dealers right now has gone up to 850 and including sub dealers will be about 18,000.
- Sonali Salgaonkar:** Fair enough. What was the average spread of PVC to EDC in Q2 and how much is it currently?
- Prakash Chhabria:** The average EDC spread in Q2 was 737 and now it is close to 700.
- Sonali Salgaonkar:** This is very helpful. Thank you Sir!



Finolex Industries Limited
November 13, 2017

- Moderator:** Thank you. We take the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.
- Chintan Sheth:** Thanks Sir for taking my question. Sir on the spread side apart from the planned shutdown at PVC and jetty, if that event would not have been occurred then we would have enjoyed the spread that is what you are implying right?
- Prakash Chhabria:** No, what happens is our jetty shutdown during mid May because of monsoon and this happens every year from the beginning, so if the EDC price goes down that means if the spread becomes better we will not enjoy it fully in the month of July and August because my inventory would be filled up in the month of May itself, so that works against us when the price go down, but it works in our favour when the price go up.
- Chintan Sheth:** Because we would have been low cost inventory.
- Prakash Chhabria:** So therefore if you see, it is not that we shy away from giving away, answers about the future and all that, the reason is because of things like this also.
- Chintan Sheth:** Sir on the PVC side this is three year maintenance shutdown right or every three year you used to...
- Prakash Chhabria:** Between two to three years yes.
- Chintan Sheth:** Two to three years, but have we informed investors, exchanges about the shutdown because...
- Prakash Chhabria:** But we have been doing this from day one, part of our normal, it is a routine shutdown.
- Chintan Sheth:** Sir if you can help us the cost of PVC, ethylene, EDC in absolute terms and VCM in absolute terms for first half 2018 compared to full year FY2017 if you can provide the sales volume?
- Prakash Chhabria:** Sales of PVC price?
- Chintan Sheth:** No, not price, but absolute value for first half of EDC, VCM, ethylene and compared to full year FY2017 rupees crore value?
- Prakash Chhabria:** This we will have to get back to you. I will tell Mr. Whabi to get back to you for this. Your full name is Chintan Sheth from Sameeksha Capital?
- Chintan Sheth:** Yes and capex we have incurred for first half and guidance for full year 2018?
- Prakash Chhabria:** We are like that earlier said we are going to be spending about 250 Crores over a period of two to three years that started partly last year, it is going on this year and next quarter, so the whole



Finolex Industries Limited
November 13, 2017

impact of all the rollout and everything would be close to in 2019 or FY2020 would be the full year where the whole benefit would come.

Chintan Sheth: What will be the capacity then for above 4 lakhs?

Prakash Chhabria: The total capacity would go to 370,000 tonnes.

Chintan Sheth: By FY2020 beginning?

Prakash Chhabria: Yes.

Chintan Sheth: Sure Sir! I will join in the queue Sir!

Moderator: Thank you. Next question is from the line of Vasant Patil from HDFC Securities. Please go ahead.

Vasant Patil: Thanks for taking question Sir! Till now what is the amount we have incurred for the capex out of 250 Crores including the last year and first half Sir?

Prakash Chhabria: First half is about Rs.40 Crores.

Vasant Patil: And the last year is?

Prakash Chhabria: Last year total capex was about Rs.80 Crores.

Vasant Patil: This Rs.80 Crores plus Rs.40 Crores and minus Rs.250 Crores is the total what we are going to assume for the next period?

Prakash Chhabria: That is correct.

Vasant Patil: Sir considering the crude actually bouncing back, so this kind of volatility will happen particularly in the realization or this kind of the margins will continue to have a volatility, so can you elaborate in that part actually, as we dependent majorly on the crude as an input raw material?

Prakash Chhabria: If you look at our results for the last five years let us say 20 quarters we will always see there is volatility and part of that reason is because of jetty closure, part of the reason is because of monsoon and part of the reason is also because of crude prices going up or down like I remember about third quarter of FY2015 we did have a drop in profit, we made a huge loss and that time it was because crude prices sharply went down. Now when crude prices sharply go down within a small period of time like in five weeks then it affects the company very heavily because of inventory carrying.



Finolex Industries Limited
November 13, 2017

- Vasant Patil:** You are largely because of the inventory carrying?
- Prakash Chhabria:** So things like that can always happen, one cannot predict, people are even talking about crude, you can read so many papers, people even talk about crude going to \$30 and next morning you get up and see it is moved up to \$60, \$65 dollars, so it is very difficult to predict like this.
- Vasant Patil:** The worries actually, if you look at the competitors margin also it has not fallen that way significantly how we have fallen so that is actually we are focusing on volume and clearly mentioning our focus is on volume, so that is actually gives us quite not a kind of a comfort level to margin assumption even actually competitors have not fall why actually we are only taking that kind of a hit, are we gaining?
- Prakash Chhabria:** So if you see like I give a breakup, the breakup of 360 million, 180 million plus 65 million is basically because of the PVC plant.
- Vasant Patil:** 180 million plus 165 million?
- Prakash Chhabria:** Correct.
- Vasant Patil:** Even if you add back that also our improvement would be not a very significant improvement, so still we are in the downside actually, so that is what wanted to understand actually?
- Prakash Chhabria:** No I do not understand your question one second. Rs.180 million is because of the PVC plant correct, 65 is because of the power plant then we come to PVC pipes and fittings which is about 115 million.
- Vasant Patil:** So we are not losing in front of the realization, if you look at the average realizations even that has actually taken a hit, so that is largely due to, we are passing the discount largely to gain the market share, is that correct Sir?
- Prakash Chhabria:** For PVC pipes and fittings yes, absolutely correct.
- Vasant Patil:** Absolutely correct.
- Prakash Chhabria:** Because if you see that is the same time when GST got announced and one could be sitting on July 1, 2017 trying to see what is going to happen and wait for things to happen or one could get aggressive into the market has starts pushing stuff.
- Vasant Patil:** So this kind of double digit volume growth will continue for next two to three years that kind of assumption is fair enough Sir, in terms of volume if you are looking?
- Prakash Chhabria:** This is what we spoke about earlier also that because of GST there are various indications coming from various parts of the country that many companies are finding it difficult and hence



Finolex Industries Limited
November 13, 2017

keeping that in mind, keeping a healthy monsoon, keeping new small housing coming up, all those things put together we are very well geared up with our expansion plan to meet all those requirements and therefore like I mentioned earlier to be able to push out 23% volume more, if it was in rupees is okay, but to be able to put out 23% tonnage more is not a small thing, I think the team has done a fantastic job, physically manufacturing, physically shifting, physically loading, physically everything, I think they have done a brilliant job for the whole pipeline to work that well.

Vasant Patil: That is all from my side.

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

Ritesh Shah: Sir couple of questions, Sir you have recently detailed 2020 target of \$1 billion of revenues and doubling capacity, Sir effectively \$1 billion revenue will imply 33% CAGR from now till 2020, Sir how do you plan to achieve this, so I am assuming this is the combined resin and plastics put together, so Sir how should one look at it going forward?

Prakash Chhabria: The way we are looking at it is basically that all our expansion, which will come into place for the money, which you have started spending from last year going ahead, all of that should give us an impetus to reach 1 billion. Now I stand corrected when I say 1 billion only if the dollar rupee changes heavily, if dollar rupee goes to 70 or something then I stand to be corrected, but if dollar rupees is around 65 or 60 levels then I think it is a thing, which we have kept as a target, we have worked very hard on it internally, our distribution channels, our product ranges like I said we have reached 150 SKUs for CPVC, so all of those things are falling into place, so I am very confident we should be able to get there.

Ritesh Shah: Would it be possible to provide more colour specifically on the pipe and fitting side, what is the volume CAGR because historically we have guided for maintaining the volume growth guidance, should we look at this number to be upwards of like 18%, 20%, so how should you look at it Sir?

Prakash Chhabria: So if you see the second year, second quarter volume was up by 23% correct, that also is an indication of how we are hoping the thing should pan out like I said earlier in case there are amendments to GST rules, which makes it easier or more comfortable for others then maybe there would be, but otherwise keeping everything in mind as things stand we should be able to look at good double-digit volume growth.

Ritesh Shah: Sir my second question is I think you have elaborated a bit in the prior questions, but how will you look at the company going forward specifically on pipes and fittings will we chase profitable growth or what matters to us as more market share even we have given our 2020 target?

Prakash Chhabria: For us both are important profit as well as market share, but let us go back to Q2, which is what everybody is apprehensive about and worried about. We are also worried, we are also



Finolex Industries Limited
November 13, 2017

apprehensive, but please do not forget Q2 had July 1, 2017, which was GST it is something which happened for the first time in our country so we could have also waited out to see how things are moving then you know take action instead of that we decided that let us try out something different for a quarter. Let us go and grab market share let us see how it works what happens and it worked very well I think, it worked brilliantly in the whole pipeline works smoothly, physically to be able to move that kind of volume in the market was a brilliant thing. I think the team did an excellent job.

Ritesh Shah: Sir it speaks volumes about our execution, but are we okay with like 3% plus EBITDA margin in the pipeline?

Prakash Chhabria: No definitely not obviously margins are very important, definitely not, but if I have to test out something I have to sacrifice something so that we did, but it does not mean that is my vision for 2020.

Ritesh Shah: Sir do we have any ROC target specifically for the pipes and fittings division because we have resin business, which has volatile cash flows so when the spreads are good we have a fungibility of cash flows from resin to piping, which can actually help us push volumes, get market share and operated lower margins as well say what we saw in Q2, but going forward Sir again you elaborated on this basically, but how do you see this going forward so is it more of a cross fungibility game or is it focused on market share?

Prakash Chhabria: So what you mean by gross fungibility?

Ritesh Shah: Sir so far the resin business when the spreads are going to make a lot of money over there that effectively can be used to actually operate at lower margins pipes and fittings wherein we can actually get higher volumes on market share, so as far as resin continues to do well we can actually double our market share probably we can be very aggressive in the market, but when the spreads turn the other way around and given our cash and carry business model then actually I do not know what our strategy would be, so just trying to understand that Sir?

Prakash Chhabria: You are saying if the PVC spread is good that means you are making a lot of money in the PVC business. You are saying we should or we should not keep ahead this spread in pipes.

Ritesh Shah: I am saying Sir it gives us more flexibility, more muscle power to actually become aggressive in the market, but then we can operate at lower margins pipes and fittings business?

Prakash Chhabria: You are absolutely correct, but please understand second quarter for me usually jetty closure is there it is a known fact from day one so and GST came July 1, 2017 so we have to face reality, that is happened on July 1, 2017 at that time, if at all happens in some other month then what you are saying is absolutely correct then we will not be talking because we would have made plenty of money in the PVC business like you are saying and that would have been more than enough to



Finolex Industries Limited
November 13, 2017

compensate for the drop in the PVC pipes business, you are absolutely correct, but realistically speaking it happen on July 1, 2017 we cannot change that.

Ritesh Shah: Would you like to give some return ratio targets for our 2020 target, you have given \$1 billion of applying and doubling capacity so specifically would you like to highlight ROC targets specifically for pipes and fittings division?

Prakash Chhabria: We are keeping those right now internally, we are keeping those confidentially internally because we just want to see how things go ahead, we want to see how things gone out.

Ritesh Shah: That helps. Sir my third question is net realization per tonne on a sequential basis for pipes and fittings actually moved up. Now this is the despite I think pushing higher volumes and probably higher discounts in the market Sir what extends the sequential increase in net realization per tonne?

Prakash Chhabria: What is the sequential?

Ritesh Shah: Increase in net realization per tonne for pipes and fittings?

Anil Whabi: For pipes and fittings that from Q1 to Q2 it has gone up from Rs.81500 to Rs.82200 and same for fitting which has gone up of Rs.155000 to Rs.165000 per tonne.

Ritesh Shah: Sir my question is that realization per tonne on a sequential basis has increased over years, is it a function of higher fittings sales during the quarter because we have got very good volumes I am assuming that the discounts will what we would have given to the market would have been higher and consequently the realization on a per tonne basis should have been lowered if my understanding correct?

Anil Whabi: No if you are looking on quarter-on-quarter yes the fitting volumes have gone up. PVC as we mentioned in the last quarter we had just started so availability become an issue slightly in the first quarter, which was better in the second quarter.

Ritesh Shah: What are the volumes for CPVC?

Prakash Chhabria: CPVC pipe volume if you look at quarter-on-quarter basis from 900 to 1200 it has moved and in case of fittings from 126 tonnes to 247 tonnes.

Ritesh Shah: Thank you so much Sir! I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Ravi Mehta from Deep Financial. Please go ahead.



*Finolex Industries Limited
November 13, 2017*

- Ravi Mehta:** Thanks for the opportunity. Just one question on the discounts that you give for ramping the pipe volumes so is it more on the agri side, housing side or both?
- Prakash Chhabria:** I would think both.
- Ravi Mehta:** Any specific focus on any one particular segment?
- Prakash Chhabria:** For us is the same no I mean we are aggressive for both. We have not, earlier days we used to be very aggressive only on agri now we are focusing on both the subjects.
- Ravi Mehta:** Are you extending this discount even on the CPVC range?
- Prakash Chhabria:** No not necessarily.
- Ravi Mehta:** We intend to price CPVC where it was may be?
- Prakash Chhabria:** It is a different thing that CPVC always has been different compared to the PVC products.
- Ravi Mehta:** The discounts is more in terms of trade discounts to the distributors or you ensure that the product is sold at a discounted rate to the farmers or how does that?
- Prakash Chhabria:** We do not have any distributors, we sell directly to dealers.
- Ravi Mehta:** So it is discount to the dealers straightaway?
- Prakash Chhabria:** Direct benefit to the farmer to the customer.
- Ravi Mehta:** Fine thanks. Most of the questions answered. Thank you.
- Moderator:** Thank you. We take the next question from the line of Karthik Gada from Val-Q Investment. Please go ahead.
- Karthik Gada:** Thanks for the opportunity. Just wanted to understand so these discounts they have continued in 3Q as well so basically what I am trying to understand is till what would make you change, what would make you stop giving these discounts?
- Prakash Chhabria:** What would make me change, what would want me to stop giving these discounts I am sorry, but I cannot put it in public like this. This is all our internal working so what we are trying to achieve so I cannot share those.
- Karthik Gada:** So would it be fair to assume they are continuing even in 3Q?
- Prakash Chhabria:** Part of it yes.



*Finolex Industries Limited
November 13, 2017*

- Karthik Gada:** Thanks. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Praveen Sahay from Edelweiss. Please go ahead.
- Praveen Sahay:** Just on the realization as you had mentioned in the past like for the pipe, you had mentioned that from Q1 to Q2, which has gone up is it right?
- Prakash Chhabria:** Yes that is also because the PVC prices also inched up.
- Praveen Sahay:** But if I am calculating with the segmental breakup and the volume it is showing me the pipe and fitting realization has gone down Q-on-Q?
- Prakash Chhabria:** No it has actually gone up.
- Praveen Sahay:** Second question is the PVC resin, there is two part, one is internal and external uses and if I look at on Y-o-Y basis our internal uses realization of PVC resin has gone up?
- Prakash Chhabria:** Yes.
- Praveen Sahay:** Our external resin realization has gone down quite significantly of around 11%?
- Prakash Chhabria:** Both have gone up.
- Praveen Sahay:** Both have gone up?
- Prakash Chhabria:** Yes.
- Praveen Sahay:** Could you please explain like because my calculation is not showing gone up for resin external?
- Prakash Chhabria:** Can you tell us what is your calculation?
- Praveen Sahay:** So it is like last year from where I am calculating we have a volume of external uses of PVC and we have on sales so whatever the PVC resin sales is actually from the external segmental numbers we have given.
- Prakash Chhabria:** Segmental numbers is for the whole PVC plant so therefore I am wondering how you broke it up. We can discuss this later Praveen.
- Praveen Sahay:** It has gone up. All three cases it has gone up realization. Fine Sir!
- Moderator:** Thank you. We take the next question from the line of Nehal Shah from ICICI Securities. Please go ahead.



Finolex Industries Limited
November 13, 2017

- Nehal Shah:** Thanks for the opportunity. Sir any colour on the column pipes how are we doing?
- Prakash Chhabria:** Column pipes we have worked on it. We are still not in the best of health.
- Nehal Shah:** Any particular reason Sir?
- Prakash Chhabria:** Our focus has been on when we talked about volume growth of 23%, there a lot of physical energy we goes into producing so much more and shipping out so much more and getting the whole system going, so therefore and our real focus for the last five months has been getting up to 150 SKUs for CPVC so those who are given the two major attention so now I think it is turn for CPVC for column pipe to come up.
- Nehal Shah:** Because Sir it is very, very periling to understand since we are very, very strong connect with the farmers, we are fantastic distribution network in agri unlike the other competitors we should have scaled up far, far bigger and better column pipes still there?
- Prakash Chhabria:** I totally agree with you, but physically it was not possible to be able to get this, but we have, let me just tell you one thing let me reassure you we have already started working very hard on column line.
- Nehal Shah:** Sir are we planning to introduce new products in the pipe jetty any new products are we looking at anything?
- Prakash Chhabria:** Not now at the moment we are just focusing what is in our basket.
- Nehal Shah:** Fine Sir! Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** If you are talking about volume game and focus is on gaining market share any rough idea at what percentage points of the market share has gained in this quarter and currently where we are standing?
- Prakash Chhabria:** Market share all spread out and there is no like in automobile there is a monthly reporting and all that there is no reporting.
- Chintan Seth:** Estimate about how much you have gained compared to industry growth so if the industry has grow next and you grown 23% plus so?
- Prakash Chhabria:** Hardly two or three companies who report out of whatever 500 or 1000 pipe manufacturer so what we focused on is our own growth because for me to give you a number is okay I mean I can



*Finolex Industries Limited
November 13, 2017*

say we are 10% of full market or 20% of unorganized from 20 moved to 25 whatever, but it is still going to be all numbers in the air, there is no real number.

Chintan Seth: Correct. On the utilization for first half what will be the pipe utilization for us?

Prakash Chhabria: For the first half pipe utilization?

Chintan Seth: Yes capacity and production.

Prakash Chhabria: As you aware during the monsoon period we cut down on the production so full year if we look at it normal level utilizations are between 70% and 75%. So that is how it will be this year as well.

Chintan Seth: We had not added any capacity from last year?

Prakash Chhabria: No we are adding in the current year that is how we will go from 290 slowly we will go in two years period to 370000.

Chintan Seth: But I am seeing in the first half have we added any more capacity so?

Prakash Chhabria: We are adding every quarter.

Chintan Seth: So what will be the standing right now 290 to where we have reached?

Prakash Chhabria: That we do on annual basis.

Chintan Seth: On the tax rate the earlier conclusion regarding the realization is because of I think net realization and earlier we used to deduct the excise and stocks, so that was the main difference I think, which earlier participant was asking about, change in gross net because of the GST so if you like earlier we had a segmented revenue of Rs.690 Crores in the PVC pipes, which restated to Rs.610 Crores so I think that was the reason why net realization figures are not comparable on gross to net basis so I just wanted to ask what is the post GST experience in terms of this change in tax structure, which led to reduction in our net realization and that led to whether we passed from the look of it, it does not look like we have gained from the GST in terms of revenue booking so earlier our gross revenue was around 690 for Q1, which is restated at 610 so it is around close to Rs.80 Crores downward revision on the revenue part?

Prakash Chhabria: But revenue also depends on the raw material prices I think it is a cyclical thing.

Chintan Seth: No I am saying about the restatement not for the current quarter I understand that I am seeing the restatement of the previous quarters wherein our revenue was Rs.690 Crores on a gross level and the excise was adjusted and this year when we restated to compare it with the GST number that is



Finolex Industries Limited
November 13, 2017

we reported as 610 for the PVC pipes for Q1 2018. So there was downward revision of Rs.90 Crores in so I am wondering whether what would be the sales tax of that figure in that?

Prakash Chhabria: Earlier excise duty of 12.5% plus CST or local state taxes all put together was about 18%-19% and GST is also 18% and so for us it has not made impact neither on the realization nor on the business as such.

Chintan Seth: Difference would be CST and VAT number I think mostly right?

Prakash Chhabria: Yes.

Chintan Seth: Thanks.

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

Ritesh Shah: Couple of questions Sir would it be possible for you to give some strength on how the market has grown in Q2 so we did very solid numbers for 23% volume growth, Sir what was the market have grown at?

Prakash Chhabria: PVC pipe market is the same what I was trying to answer earlier that there is no real reported numbers like in automobile industry so whether I give you the market or whether I will tell you the market share we do not have any real numbers on that, that is why we focus only on our growth.

Ritesh Shah: Correct but Sir do you think this would be like we would have got market share from the organized sector or from unorganized sector post GST is that transition happening basically?

Prakash Chhabria: I think it is both, part of it is from existing players, but part of it is also because of new market so one cannot pinpoint and say necessarily that it is only because of gaining of what we called market share. It will be new markets opening up and new demand plus GST effect.

Ritesh Shah: Sir when you say new markets does it imply CPVC what we are is that is a question?

Prakash Chhabria: CPVC will be a part of it yes because when I mean new market means construction because we always look at construction in the city and we say construction has slow down or construction is low, but that is not the reality when we look outside the cities if you leave aside the first 50-75 cities and as we entering into rural India for us it is very easy to push agri as well as non-agri across the country.

Ritesh Shah: Sir what will be the current differential and realizations between Finolex and other players, if you could please detail us for PVC, CPVC and agri pipes?



*Finolex Industries Limited
November 13, 2017*

- Prakash Chhabria:** There can be a difference about 5% to 6%.
- Ritesh Shah:** Sir how would this have been earlier?
- Prakash Chhabria:** Close to same 5% to 6% or 5% to 7%.
- Ritesh Shah:** There has not been much of change Sir what I am trying to understand is basically given we have got such incredible market share basically on back of their volume growth when I was coming from is unorganized sector people who are into agri pipes if I am a buyer, if I am a farmer I will obviously choose Finolex because the pricing differential would have reduced significantly so I am trying to understand it from that angle Sir?
- Prakash Chhabria:** But you are trying to see that as a customer you will find that the differential between, but you asked me the prices between organized players if we look at the unorganized players that has gone earlier it used to be 40% difference and now it has come down to like close to 15%. So you see organized that is why I was saying 5% to 7%.
- Ritesh Shah:** In organized Sir?
- Prakash Chhabria:** Organized that is why I am saying that is 5% to 7% and unorganized there it has come down from 40% to 15%.
- Ritesh Shah:** This shift has already playing up from unorganized to organized?
- Prakash Chhabria:** It is happening everywhere.
- Ritesh Shah:** Sir how should we look at our positioning in the PVC and CPVC space because in CPVC basically you have Ashirvad basically people who have tie-ups with Lubrizol including us who command premium pricing so is our positioning also in similar fashion to like where Ashirvad would be wherein I am not sure whether it is premium or discount to Astral or Supreme, so how should we look at it Sir?
- Prakash Chhabria:** As you very well known we are not one of the oldest players or the biggest players in CPVC and I would promote ourselves as a newest player, newest entrant for CPVC. So far obviously our positioning is not going to be the highest.
- Ritesh Shah:** Sir as against Supreme or Astral also we will be like competitive or lower than them?
- Prakash Chhabria:** Some places competitive and some places lower.
- Ritesh Shah:** So this is despite the compounding procured from Lubrizol?
- Prakash Chhabria:** Because it depends geographically also.



*Finolex Industries Limited
November 13, 2017*

- Ritesh Shah:** That helps a lot Sir! Thank you so much.
- Moderator:** Thank you. Next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** Thanks for the followup. On the new market last year before we have opened up a new warehouse large warehouse in Odisha so that is what we have gained on volumes with as you mentioned about the new market that is what played out well for the company in terms of volume?
- Prakash Chhabria:** Yes.
- Chintan Seth:** So we have seen a strong flexion in the eastern market where you just entered a couple of years back. What is the plan post GST about the warehousing and I mean new markets you are targeting going forward where we have.....
- Prakash Chhabria:** No at the moment new warehouses are not being looked at.
- Chintan Seth:** If we were in focus on West South and East from Odisha?
- Prakash Chhabria:** Yes.
- Chintan Seth:** Right any plans for the northern market where our presence..
- Prakash Chhabria:** We already have a warehouse in Delhi.
- Chintan Seth:** But in terms of, these are the four locations we are comfortable to get at the market?
- Prakash Chhabria:** Not four we have three right now, one is in Indore, one is in Delhi and one is in Cuttack.
- Chintan Seth:** In South we will cater from the Cuttack?
- Prakash Chhabria:** No South directly from Pune or from Ratnagiri.
- Chintan Seth:** We are well placed to cater?
- Prakash Chhabria:** From Pune to South India it takes less than two days.
- Chintan Seth:** So we do not need to set up a new warehouse over there, so strategy is like we are now present across the notes where we can reach out to the market and market as quickly as possible so there is no expansion under new market, this is more penetrating from the current notes to farther areas where we are not present.



*Finolex Industries Limited
November 13, 2017*

- Prakash Chhabria:** Correct.
- Moderator:** Thank you. We take the next question from the line of Pratik Shah from Umang Investment. Please go ahead. As there is no response we move on to the next question. It is from the line of Chandra Gopal from JM Financial. Please go ahead.
- Chandra Gopal:** Just wanted to clarify you mentioned that this 40% difference came down to 15% is unorganized, so this implies that they have started complying with taxes because what we were hearing is because of this e-way bill not being implemented it has become more easy for them so just wanted to get a clarification on that?
- Prakash Chhabria:** My dear friend the population of these companies is close to from 500 to 1000 one or two will do one thing, one or two will do something, but you cannot take an answer of two or three to be an answer for everything.
- Chandra Gopal:** So the compliance is increasing on ground is that understanding correct?
- Prakash Chhabria:** Some of them are even closing.
- Chandra Gopal:** They are closing?
- Prakash Chhabria:** It is a mixed basket, but whoever is there is obviously complying and taking this price up.
- Chandra Gopal:** Thank you.
- Moderator:** Thank you. We take the next question from the line of KVRS Babu from Vishal Portfolio. Please go ahead.
- KVRS Babu:** How is the demand scenario to push up the volume we are sacrificing our realization means demand is bad, how is the demand scenario for the pipes and fittings and 50% volume we are sacrificing our realization?
- Prakash Chhabria:** But if you see the second quarter what we have been talking about for the last one hour is that basically because of GST.
- KVRS Babu:** But that is why I am asking how is the demand?
- Prakash Chhabria:** No the future is looking good because I tell you the monsoon this year has been very good and average monsoon has been good if you see the geographical spread of monsoon has been good so I think it is a good future.
- KVRS Babu:** So in Q3 and Q4 you are expecting good demand?



Finolex Industries Limited
November 13, 2017

Prakash Chhabria: Yes.

KVRS Babu: Thank you.

Moderator: Thank you. Well that seems to be the last question for today I now hand the floor back to the management for any closing remarks.

Prakash Chhabria: Thank you everybody. Thank you very much. It is always nice to interact with everybody, so look forward to meeting again after three months. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Investec Capital Services that concludes this conference. Thank you all for joining us. You may now disconnect your lines.