



“Finolex Industries
Q4 FY2018 Earnings Conference Call”

May 24, 2018



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Moderator: Good morning ladies and gentlemen, welcome to the Finolex Industries Limited Q4 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you and over to you, Sir!

Ritesh Shah: Thanks Lizaan. Good morning everyone. I welcome you on behalf of Investec Capital for Finolex Industries Q4 conference call. We have with us the senior management of Finolex Industries. We have Mr. Prakash Chhabria, Executive Chairman, Mr. Sanjay Math, Managing Director and Mr. Anil Whabi, Director (Finance) and CFO. Over to you Chhabria Sir, we will start with initial comments and follow-up with Q&A.

Prakash Chhabria: Thank you. Good morning everyone. I welcome you all to the Finolex Industries Q4 FY2018 Investor’s Conference Call. We witnessed healthy growth in sales volume for PVC pipes and fittings during the quarter and for the year ended March 31, 2018. Volumes were up by 12% and 20.4% in Q4 and for the year respectively. Sales volumes were at around 72000 metric tonnes for Q4 and about 252000 tonnes for FY2018. The sales volume for PVC resin for FY2018 was 258000 tonnes up by about 10%. We reported healthy EBIT margins during the quarter at 21.3% as against 13.6% in the previous quarter. For the year our EBIT margins were around 15.5% lower than the year before last.

Total revenue excluding duties and taxes was at INR 8 billion and for Q4 FY2018 it was down by about INR 8876 million. PAT was marginally lower for the quarter and also for the year. During the quarter PVC resin pipe was around 0% PVC DC delta continue to be healthy which resulted in good margins for the PVC resin segment.

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. The first question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: Could you tell us the price for PVC, EDC, Ethylene and VCM for the fourth quarter and for the full year average?

Anil Whabi: For the fourth quarter the PVC price was \$1000, EFC was \$245 and for the full year PVC price was again \$1000 and EDC was \$245.

Chirag Setalvad: And Ethylene and VCM?



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Anil Whabi: Ethylene at \$1285.

Chirag Setalvad: This is for the quarter.

Anil Whabi: Yes for the quarter and VCM was \$815.

Chirag Setalvad: And for the full year average.

Anil Whabi: \$755 VCM and \$1108 Ethylene.

Chirag Setalvad: And so these are pre VCM assuming?

Anil Whabi: Yes.

Chirag Setalvad: Could you tell us the internal resin consumption in the fourth quarter and for the full year as well?

Prakash Chhabria: See for the full year it was 191000 tonnes captive consumption.

Chirag Setalvad: And the quarter.

Prakash Chhabria: And it is 148000 of last year.

Chirag Setalvad: No sorry could you repeat that.

Prakash Chhabria: 191000 for the full year as against 148000 last year.

Chirag Setalvad: And what was it for the quarter?

Prakash Chhabria: This quarter was 55000 tonnes.

Chirag Setalvad: And my last question Sir could you tell us the production via EDC and VCM for both the quarter and for the full year?

Prakash Chhabria: For the quarter VCM route was about 47000 and for full year it was 120000MT.

Chirag Setalvad: And by the EDC route sir the balance amount.

Prakash Chhabria: Yes 35000 and 142000MT.

Chirag Setalvad: Thank you very much.



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- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Broking. Please go ahead.
- Praveen Sahay:** Sir there is an improvement in operating margin even in the gross margin. So is there any inventory gain you had incurred for the quarter.
- Prakash Chhabria:** See PVC prices did go up so there would be some inventory gain yes.
- Praveen Sahay:** So any quantum can you share?
- Prakash Chhabria:** It is difficult to quantify.
- Praveen Sahay:** How much is the total capacity by end of this year the pipe and fitting?
- Prakash Chhabria:** Last year it was 290000 so by the end of this year this is 330000 tonnes.
- Praveen Sahay:** We are continuing our guidance for the 30000 metric tonnes of every year expansion in this segment?
- Prakash Chhabria:** Yes approximately yes.
- Praveen Sahay:** Thirdly on the prices as far as already mentioned 10% of PVC piping prices is up so will that we had a pass on in the pipe prices.
- Prakash Chhabria:** Yes we already passed on like I said before also if it is during monsoon season when the demand goes down then a pass on is difficult, but if the season is good then the pass on is much more possible.
- Praveen Sahay:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from BOB Captive Markets. Please go ahead.
- Sonali Salgaonkar:** Sir very good morning and thank you for the opportunity. Sir my first question is regarding the volumes. Now Sir if I look on a quarterly basis across the past four quarters the volume growth has been say 12% in pipes and fittings this quarter and 50% before that. So going ahead what is the kind of steady state volume growth that we should look at from here on and again a related question is how should we look at the discount pattern going forward?
- Prakash Chhabria:** Volumes have to change like I mentioned in the question earlier also because of the monsoon. Monsoons time the volumes do go down and your observation about 50% growth for the third quarter is that was there because if you see third quarter before that was way to low because of demonetisation. So if you see in perspective we are always aiming for a year-on-year growth and



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which we hope always to be in double-digit and we have been able to achieve it so far we hope to continue.

Sonali Salgaonkar: Sir about the discounts going ahead should we see some pricing increase apart from the pass through of PVC resin?

Prakash Chhabria: If you see in the profitability of the pipe division having improved is basically also because of improvement in pricing.

Sonali Salgaonkar: Sir my next question is on CPVC volumes what are the CPVC volumes that we have sold in FY2018 and how much we expect to ramp up over the next two years?

Anil Whabi: For the year this was 5800 tonnes as compared to 4100 tonnes last year so this is a growth of about 42% and hope to do good growth in the coming years as well. We do not give any future looking statements, but you can see the trend and what has happened last year was it was only by October and November we were able to come out with the full fitting range to help even what we have done even in the last was not a full proper year so this year should be a better year, much better year.

Sonali Salgaonkar: Sir my last question. Sir could you share with us the average PVC to EDC spread in Q4 FY2018 and full year FY2018?

Prakash Chhabria: For Q4 this was PVC, EDC was 785 and for full year 722.

Sonali Salgaonkar: Sir this is very helpful. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Rahul Sharma an Individual Investor. Please go ahead.

Rahul Sharma: Good morning Sir. I would like to understand the transfer pricing mechanism between the PVC resin sector and the pipe sector?

Prakash Chhabria: Yes the transfer pricing this has always done at the market price, the price that which we sell in the market that is the price we use for the transfer also.

Rahul Sharma: Sir can you give a revenue split between the CPVC and PVC?

Prakash Chhabria: See for the quarter this is 48 Crores and for full year it is 147 Crores CPV business.

Rahul Sharma: Also Sir on a gross margin and an EBITDA margin level is CPVC more attractive than the PVC segment?

Prakash Chhabria: Yes, definitely it is.



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- Rahul Sharma:** On a gross margin level as well?
- Prakash Chhabria:** Yes.
- Rahul Sharma:** Sir what would be the impact of the higher crude oil prices on the demand and the margins I mean does the inventory gain offset the demand changes?
- Prakash Chhabria:** Well right now the demand is good because of the season, so if the prices were to go up for PVC let us say shoot up then it could cause a demand problem, but right now the PVC resin prices have not gone up let us say in total consumption with crude so the demand is still good and the price push into the market is still possible.
- Rahul Sharma:** Also Sir do we have revenue split for used case how much percentage of your revenue comes from agriculture versus plumbing?
- Prakash Chhabria:** Yes that is 70:30.
- Rahul Sharma:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital Services. Please go ahead.
- Ritesh Shah:** Thanks for the opportunity. Sir my first question is we hear about farmers in Maharashtra specifically linked with sugarcane they have not got the money, which is due to them so had it got some impact on volumes for us in this quarter or like could the volume numbers would have been better if the scenario was favorable?
- Prakash Chhabria:** Your statement and your observation is not totally correct. There have been delays, yes. That could have been better also yes, but whatever was passed on whatever came the way of the farmers did has the business and that is visible from the volume growth. Usually by February, March the money actually comes in properly that is what you are saying if that had come in yes then the volume growth would have been far, far better.
- Ritesh Shah:** That helps. Sir my second question is will it be possible for you to share the average cost of inventory that we have on the books currently for EDC, Ethylene and VCM I am just trying to understand how the resins prices are look like in the first half of fiscal 2019?
- Prakash Chhabria:** I do not think we want to share that at the moment.
- Ritesh Shah:** Sir would you be able to help us with some color on the erratic patterns that we have observed on the EDC prices Sir how should we look at it?



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- Prakash Chhabria:** How should we look at means if you see my quarter-on-quarter results for the last 20 years it has always been erratic and the reason it is erratic is if you will see EDC, Ethylene, VCM, PVC they do not necessarily follow a trend of let us say related to crude so therefore if I was to tell you that please follow the crude trend I would still be telling you a wrong information because PVC has a different track, EDC, Ethylene have a different track so this business is quite cyclical and on top of that to make it more complicated is the dollar, rupee the FX component that also make a big difference in the pricing in India. Unfortunately I cannot give you a good answer. I am just telling you that yes it is cyclical and it continue to be cyclical.
- Ritesh Shah:** That helps. Sir we are doing phenomenally well on the CPVC side, any new product launches that we have planned basically in this fiscal how should one look at it?
- Prakash Chhabria:** Yes, we are launching new products and we are getting prepared for the launches very soon.
- Ritesh Shah:** Sir will you be able to provide some colour what are the segments that you are looking at the market opportunity side which you will get over here which we can tap in?
- Prakash Chhabria:** As you know, there is a lot of push by the government for the agriculture sector as well as the non-agri. Like I always say Finolex is poised for a big jump in either of the sectors and that is what has been our focus and that is what we have been able to achieve.
- Ritesh Shah:** Sir I have more questions I will join back the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Ayush Sharma from Investec Capital Services. Please go ahead.
- Ayush Sharma:** Thank you for the opportunity. Sir on our guidance for FY2020 are we still holding it about \$1 billion of sales in FY2020?
- Prakash Chhabria:** We are holding it internally. Externally I think we might have to relook at it either reducing the amount or postponing it by a couple of years, because we were aiming to get about 30% of new business that is third party business and we have started this project about two years ago. Now after having seen it for two years spend a lot of time energy and effort on that. The third party business is really not coming in, we are not able to garner products or bring in products, which will help us to reach our turnover target. What we are doing is we are focusing fully on our products that is pipes and fittings and we are looking at basically getting a better reach into the country in different sectors and also looking at our bottomline improvement.
- Ayush Sharma:** Sir is it possible to explain like give some color on the external products as you just mentioned?
- Prakash Chhabria:** Which we are not doing.



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- Ayush Sharma:** Yes. So what was it like where are you planning to get some product manufacturing from some other segments.
- Prakash Chhabria:** Products which are related to we have to say whether agri sector or non-agri sector I give an example in the agri sector products like an air valve, instead of doing some metal air valves, air valves made out of plastic, which are already there in the world which are there in Israel so we looked at various products like that. In the non-agri sector we even saw and tried to study whether we should get into a market which is not related us that is pipes and fittings, but something, which other people are doing so we did a hard study on it and we realized that yes even though we are aggressive even though we went to reach a billion dollar maybe we were not correct in assuming that we were cut out to do all of those third party business and therefore we stopped, instead of spending more time, energy effort money and we just will do from that whole idea.
- Ayush Sharma:** Sir is it possible to give any number for capex over next two years FY2019 and 2020?
- Prakash Chhabria:** Like I said we spend about 30 Crores a year on an average per year.
- Ayush Sharma:** Sure Sir and on the discount front have we reduce and increase the discount post March or we are just maintaining it constant?
- Prakash Chhabria:** No, like I said for the fourth quarter we improved.
- Ayush Sharma:** And that is basically on back of resin price increase of there is the demand?
- Prakash Chhabria:** No, discounts have got luckily into resin price increase, resin price increase is a pass on depending on the season but discounts improvement is a conscious decision.
- Ayush Sharma:** So we have improved it in the fourth quarter.
- Prakash Chhabria:** Yes, you can say it in the fourth quarter.
- Ayush Sharma:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chintan Sheth from Samiksha Capital. Please go ahead.
- Chintan Sheth:** Thanks for taking my question and congrats on a good set and margin recovery for the fourth quarter. Sir on the Plasson side our share of profit has increased from 9 to 16 Crores on a consolidated basis how are we doing in the Plasson business, in the micro irrigation side?
- Prakash Chhabria:** Plasson business is good. Part of that business depends on the exposure to your government because the main buyer is government. So our philosophy has been quite conservative because if



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you overextend, overexpose yes you can get fantastic turnover but it can also lead into a lot of debt and once you get into a debt trap whether it is in Plasson, in the drip irrigation or any other business also so 20% etc., is rather difficult and we are seeing that no as you read newspapers now and then many of the companies have got into debt trap so we are one of the few people who have become debt free and that is because of our conservatism.

Chintan Sheth: So what is the numbers for Plasson this year revenue side and looks like margin has improved over there EBITDA.

Anil Whabi: Yes the turnover was about 340 Crores as against 305 Crores last year and PAT was 17 Crores as against 13 Crores of last year.

Chintan Sheth: Sir on the working capital side the inventory increase is because of the regular three months on build up in our inventory and payables both have increased that is basically due to that right?

Anil Whabi: Yes.

Chintan Sheth: And sir in terms of capex how much for this year for full year?

Anil Whabi: Sorry.

Chintan Sheth: Investment capex how much we have spent around 150 odd Crores?

Anil Whabi: See as we had mentioned earlier also for two years we had undertaken this expansion project of about 250 Crores the year throughout 150 Crores has been spend.

Chintan Sheth: This year that is the correct assumption right. Sir thanks for taking my questions.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thanks for taking my question. Just wanted to check what is the current capacity utilization in the pipes and fitting segment?

Prakash Chhabria: Total if you see the volumes that we have done is 252000 as against the closing capacity of 330000 tonnes so it is about 75%.

Achal Lohade: What is the capacity expansion we are looking at in next two years in the pipes?

Prakash Chhabria: So the current expansion, which is ongoing after that we will complete that in next few months so, we will reach a capacity of 370000 tonnes.



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- Achal Lohade:** Second question was what is your assessment you are seeing some time with respect to the GST and e-way bill, e-way bill somewhat new but have you seen any difference with respect to shift from unorganized to organized any experience in that front?
- Prakash Chhabria:** Yes certainly it is happening it is not going to happen overnight but there are various corporate user in country is huge our country geographically large so in various pockets it has happened in certain shift is happening slowly so overall yes that shift is happening.
- Achal Lohade:** Do you see that the smaller unorganized players would be inclined to be a vendor for the organized pipe companies is there a possibility that all make sense?
- Prakash Chhabria:** The time spent on what they would like to do.
- Achal Lohade:** Is it theoretically possible to you or someone else facility for in terms of the maintaining the quality etc?
- Prakash Chhabria:** We are going to say it is possible why not. Whether we want to do it or not is a different question but theoretically it is possible.
- Achal Lohade:** Secondly you also pointed out expanding your distribution reach so a) in terms of the agri distribution, how are we have we reached out the entire potential or is there some more the split there and how about the plumbing segment?
- Prakash Chhabria:** Like I said geographically India is a huge country so to say that we have reached our optimal of full is rather wrong. There is still a huge growth there is still huge number of places to reach; we still have to get to many places. Every week we are adding more and more locations.
- Achal Lohade:** But in terms of the touch points how much do we have the presence as of now what is the target 21000.
- Prakash Chhabria:** 18000.
- Achal Lohade:** 18000 touch points we have and what would be the total universe just a broad understanding of that?
- Prakash Chhabria:** I have no idea.
- Achal Lohade:** In terms of the plumbing particularly sir how are we like have we reached out to the pan India in terms of the regions or will are still more so currently in south and western region for plumbing?
- Prakash Chhabria:** We are pan India for all our production of why would my dealer not sell A or B.
- Achal Lohade:** Thanks so much for taking my questions.



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- Moderator:** Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.
- Ravi Mehta:** Thanks for the opportunity. Sir as you highlighted that the discounts are improving in fourth quarter as it is visible in the numbers you are already mentioned in last call that peak discounts have behind so qualitatively if you can tell where are we in the discount though peak were behind but there is still some portion of discounting happening which is getting that on where you trading?
- Prakash Chhabria:** If you recollect my last call which was talking about I have said is happened in baby steps so whatever happening is baby steps, baby steps does not mean per week, per month or per quarter it can would not take quarters.
- Ravi Mehta:** Yes so Sir qualitatively what kind of room we still have in improving the discount is what I wanted to understand?
- Prakash Chhabria:** I do not think I can give.
- Ravi Mehta:** Mainly over a longer period.
- Prakash Chhabria:** I cannot tell. No I cannot specify that.
- Ravi Mehta:** The capacity that we increase that is fungible between PVC, CPVC?
- Prakash Chhabria:** If capacity increases?
- Ravi Mehta:** Whatever capacities are increasing that is fungible between PVC pipes and CPVC pipes?
- Prakash Chhabria:** Fungible means what one is at 5000; one is at 250000 where is the question for fungibility?
- Ravi Mehta:** Thanks. I am done.
- Moderator:** Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.
- Nitin Bhasin:** Sir congratulations on good set of numbers. Few questions one is on the general market demand right now because you have a pulse on what is happening on the real estate, housing construction also and also on the what is happening on the agri. If you could just highlight some two, three, key trends in terms of demand in the country, what is doing well what is not still doing well which parts are doing well of the country which are not doing well?
- Prakash Chhabria:** Mr. Bhasin that is a good question, but here country is so huge if agriculture is doing good yes agriculture is doing good in certain places geographically, in certain places it is still not picked



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up because all that we have in our hand is traditions so traditionally if you will see certain states will start working has peak demand, hot spots during this season. What has happened this year is instead of all of those certain states within those good states some states have not picked up fully? So I answered the question earlier also basically saying that yes if the agri money is more the farmers in Maharashtra has fully come in during February March as it usually comes in would we have sold more that this would have sold more. What I am trying to say is you cannot have a specific answer just for the whole country it is difficult. Only thing is because it is geographically huge they have different crop patterns there are different pricing of those crops so that make the whole complex generally speaking on a macro level are we good yes we are good how is it reflected in the particular tonnage.

Nitin Bhasin: So Sir of the entire agri the 70% contribution of revenue that comes from that segment how do we look at the contribution of Maharashtra, Karnataka and Tamil Nadu these three four states because which are the key markets for you are they still dominating like 70%, 80% or they are rightly with the prominent is coming lower and lower?

Prakash Chhabria: The four southern states, Maharashtra, Gujarat, Madhya Pradesh these few states are still a dominant for our turnover definitely.

Nitin Bhasin: The competition is and because we have now some small new competition coming in so that is not yet impacted your market share in these markets?

Prakash Chhabria: No, no competition is not small competition is there. We have been competing with various companies for the last 25 years. You will see new companies coming up every year. You will see some companies fading away so competition is good and actually I like competition because competition keeps you in shape, if competition keeps you away from being lethargic. So I am always happy that there should be more and more competition and it keeps me and my whole team also alert.

Nitin Bhasin: Sir last question from me would be the percentage of fittings today for the overall company because still about 1, 1.5 year back it was closer to about 10% or so what is it today after CPVC has come in as it inch up to 12% or 13%.

Prakash Chhabria: See if you see the total business what Mr. Whabi said if I recollect correctly it is 5000 some odd tonnes, the company has a total turnover of 250000 tonnes there is a 5000 tonnes even if 500 tonnes or even if 1000 tonnes was fittings it does not make a difference of 500 tonnes and 1000 tonnes and 250000 tonnes beats me.

Nitin Bhasin: Because I was trying to understand what are the scope of margin expansion over the next 12 to 24 months?



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- Prakash Chhabria:** There is a good potential because as I have been saying before we are late entrants to non-agri but now that we have geared up and luckily what we have is a very strong backbone of our dealer, retailer network so that is what is going to help us going ahead.
- Nitin Bhasin:** Thanks a lot for this.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** Good morning. Just had one question wanted to understand that for CPVC the distribution channels are quite different in my understanding compared to PVC so if we are looking to I mean how much are we looking to scale up that business in the next two to three years and will getting that extra distribution which is more in the plumbing urban side how much of a challenge would be?
- Prakash Chhabria:** The CPVC is only one part of the non-agri, non-agri includes SWR, ASTM and CPVC so what we look at is to bring a full portfolio, which allows us to meet various demand that are required in one building. So part of your thing is that the dealer network is separate is not necessarily true if you are in Mumbai as a dealer obviously you are not going to sell agri pipes so hence you are going to be selling only non-agri. But let us say you are a dealer in Kolhapur, a Kolhapur dealer is not going to sell only agri pipes. He also sells non-agri because he sell non-agri does not mean he is going to stop selling agri and it depends again on state-to-state, place-to-place, city-to-city.
- Madhav Marda:** Sir also I am not sure you shared it before but is there an internal target in terms of CPVC is about 5000 metric tonnes and it is a higher margin segment is there any view on where we want to take it in next two, to three years or it is continue to remain a minority part of our volume?
- Prakash Chhabria:** No, not minority part it will keep growing but please understand the base of the company is so huge and the company is also continue going to grow so therefore even if we were to double and triple, which our internal target in CPVC the base also will grow so if you keep looking at as a percentage it is still going to be small.
- Madhav Marda:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chintan Sheth from Samiksha Capital. Please go ahead.
- Chintan Sheth:** Thanks for the followup. Coming back to CPVC what is the capacity closing capacity this year FY2018?
- Prakash Chhabria:** Capacity would be close to 6000.



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- Chintan Sheth:** 6000 tonnes and we have planning to ramp it up to 20000 tonne?
- Prakash Chhabria:** Over a period of time.
- Chintan Sheth:** That is all. Thank you.
- Moderator:** Thank you. The next question is from the line of Vipul Shah an Individual Investor. Please go ahead.
- Vipul Shah:** Good morning Sir. Congrats for a very good set of number. What is our market share in CPVC right now?
- Prakash Chhabria:** CPVC I think the total market in India they talk about a 100000 tonnes so we must be had 5% higher.
- Vipul Shah:** What is our nameplate capacity for PVC resin for right now?
- Prakash Chhabria:** For PVC resin I think 240000, 250000 tonnes.
- Vipul Shah:** So since now we are become debt free and companies churning very good cash over last two three years are we planning any expansion in PVC resin segment Sir?
- Prakash Chhabria:** No not at the moment.
- Vipul Shah:** What are the reasons for not going for expansion in PVC resin when margins are double of the pipe segment?
- Prakash Chhabria:** Two, three reasons a) raw material sourcing because you can do a capex and set up a plant that if you are not able to time your raw material properly will have an idle I mean plant sitting idle, which are cannot afford and secondly if you will see it is cyclical. Now the cycle can be good for two years or three years we do not know what is going to be after three years and these plants take about 20 years to differentiate so went up to take a fund or not is what I call still to be decided and although obviously the import duty protection for this product is not at all good.
- Vipul Shah:** Sir what was our per tonne realization in pipe segment for quarter four and as compared to quarter three?
- Anil Whabi:** Pipes and fittings this was about Rs.88000 per tonne in pipes and fittings.
- Vipul Shah:** For quarter four and what was the same figure in quarter three Sir?
- Anil Whabi:** Quarter three it was about, this was pipes and quarter three was about 80000.



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- Vipul Shah:** So there is a sequential improvement overall 10%.
- Anil Whabi:** Yes.
- Vipul Shah:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Tejal Shah from Reliance Nippon Life Insurance. Please go ahead.
- Tejal Shah:** Thank you for the opportunity. Just one question from my side I would like to know what would be your view on the dividend policy going forward?
- Prakash Chhabria:** Dividend policy going forward we have always aimed to be close to at a 50% payout ratio.
- Tejal Shah:** So with that we would be continuing going forward as well?
- Prakash Chhabria:** I cannot give you forward-looking statement but yes that is what we feel we should hope to do.
- Tejal Shah:** That is fine Sir. That is it.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital Services. Please go ahead.
- Ritesh Shah:** Two questions; first is Sir what are the utilization levels for the EDC and the PVC, resin routes during monsoon season?
- Prakash Chhabria:** For EDC, PVC it is full for VCM out of four months of shutdown of the jetty about close to two months is on two months is off. It varies year-to-year.
- Ritesh Shah:** PVC and this is what you said it is good right?
- Prakash Chhabria:** Yes.
- Ritesh Shah:** Sir should one assume that the inventory that we would have stocked would be in similar proportion based on the way in which we operate both this lines?
- Prakash Chhabria:** I do not understand your question.
- Ritesh Shah:** Sir the inventory that we would have stocked prior to the Jetty shutdown the raw material it would be in line with this right so PVC, VCM inventory will be significantly lesser than EDC and Ethylene.
- Prakash Chhabria:** Yes something like that I cannot give you a definite answer but something like that.



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- Ritesh Shah:** Okay that helps. Sir second question is on we have a land bank right where we operate our plant earlier we had indicated that we could actually look to one time that at some point in time any update over here?
- Prakash Chhabria:** You know real estate right now on the country and the whole is quite slow. At the moment, I do not know we do not have any much things happening over there and normal people come and ask then they disappear.
- Ritesh Shah:** Sir lastly any specific commentary on column pipes you had earlier indicated in the prior call that it was a segments which was not doing great so if you could please help with some numbers specifically for this segment and indicate the outlook?
- Prakash Chhabria:** No I had not said it was not doing great I had said that we had not focused on it and we needed to focus on it and we have focused on it and in the coming months we will see a lot of improvement in that also.
- Ritesh Shah:** Sir is it like we have added more capacity over here or we have changed the products offering?
- Prakash Chhabria:** No we have added more capacity.
- Ritesh Shah:** Sir would it be possible for you to quantify it?
- Prakash Chhabria:** I do not think so.
- Ritesh Shah:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the followup opportunity. Just wanted to ask you in terms of at the industry level what has been the growth for the PVC and CPVC and the market share?
- Prakash Chhabria:** What of growth?
- Achal Lohade:** In PVC segment what is the industry growth overall.
- Prakash Chhabria:** Sorry but I did not understand your question?
- Achal Lohade:** What is the PVC volume growth or value growth in FY2018 at industry level?
- Prakash Chhabria:** In which.
- Achal Lohade:** In PVC pipes and fittings.



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- Prakash Chhabria:** What has been the market growth?
- Achal Lohade:** Market growth for full year FY2018.
- Anil Whabi:** We do not have exact numbers but we know it is close to double digit the market has also grown close to double digit just above 10%, but we do not have exact number for that.
- Achal Lohade:** And this is for PVC how about CPVC would that be similar?
- Anil Whabi:** Yes it should be.
- Achal Lohade:** And the value growth should be higher than the volume growth is that a fair assessment?
- Anil Whabi:** Yes.
- Achal Lohade:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nikhil Gada from Asian Market Securities. Please go ahead.
- Nikhil Gada:** Sir just wanted to have a understanding on how and when you decide that certain part of a PVC resin would be done per internal consumption and when we will do it for external because if I see your from FY2017 to FY2018 the resin have any significant jump in internal consumption so just wanted to understand strategy behind this?
- Anil Whabi:** See obviously the pipe that we produce we would try to consume our own resin so whatever we are not able to consume we sell in the market.
- Nikhil Gada:** Okay sir, but then is it dependent on any sort of trend where we see like when the PVC...
- Anil Whabi:** No more we produce pipes more will be the captive consumption.
- Nikhil Gada:** Because we from FY2016 to FY2017 there was not a significant jump in internal consumption but we saw that jump in...
- Anil Whabi:** There was no volume growth also if you see in 2016-2017 volume growth was not there, 209000 tonnes in both years and this we did 252000 so that is why higher resin captive consumption.
- Nikhil Gada:** That is how we should always look at it so whenever we did projects. So just one last question you said CPVC revenue was 147 Crores in FY2018 what was that number in FY2017 if you could help me with that?
- Anil Whabi:** That was 110 Crores last year.



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- Nikhil Gada:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from TCG Advisory Services Private Limited. Please go ahead.
- Umesh Patel:** Thank you for the opportunity. Good morning to everyone. Sir wanted to know what is the fitting contribution in terms of volumes as well as revenue in your PVC pipe segment for the full as well as quarter four.
- Prakash Chhabria:** See it has been around 7% in terms of volumes and 13% in terms of value.
- Umesh Patel:** 7% in terms of volume.
- Prakash Chhabria:** 13% in terms of value.
- Umesh Patel:** That is for the full year.
- Prakash Chhabria:** Full year quarter as well.
- Umesh Patel:** Sir if I look at the trend historical trend from FY2017 your EBIT margin for PVC pipe vis-à-vis your EBIT margin for PVC resin segment when the crude oil prices are moving up your PVC resin EBIT margin is going up while at the same time your EBIT margin for PVC pipe segment is going down either because of the pass-through mechanism of material in any space so what kind of sustainable EBIT margin considering the crude oil prices assuming that will remain in the range of 70% to 85% going ahead will see EBIT margin trend in both segments?
- Prakash Chhabria:** I think we have answered that question already.
- Umesh Patel:** Okay so you mean to say PVC pipe segment margin will remain around this level and PVC resin will improve right.
- Prakash Chhabria:** No I am not saying that I am saying it is cyclical hence to pinpoint a forward-looking statement of the future thing is difficult because of the cyclical nature of the business.
- Umesh Patel:** Sir have we increase the prices of PVC pipes and fittings in recent quarter.
- Prakash Chhabria:** Yes we answer that question earlier also if you see in the fourth quarter the segment results are better.
- Umesh Patel:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Rahul Sharma an Individual Investor. Please go ahead.



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- Rahul Sharma:** Sir on the competitive intensity we see a lot of capacity addition happening on the West and South especially so how are we tackling that issue I mean do we see a pressure on the realization on that front?
- Prakash Chhabria:** Like I mentioned there are about 500 people who make pipes in the country some add up new capacity some new companies come up some go away so do not think what is the change well I do not understand your question frankly.
- Rahul Sharma:** Sir a lot of capacity is being added on the west and south so are we trying to focus on the north and east to probably improve realizations?
- Prakash Chhabria:** We will always first of all protect our home customers.
- Rahul Sharma:** Also the EBITDA margin I wanted to understand it to the crude cycle if the crude oil prices go down do we see an EBITDA margin going down and when the product price go up do we see the EBITDA margin going up?
- Prakash Chhabria:** If crude prices were to go down very fast within a very short period of time has it happened in Q3 or FY2015 then definitely you will see a loss in the company because of inventory.
- Rahul Sharma:** And what about when the crude oil prices go about?
- Prakash Chhabria:** If they were to go up very fast, very quickly there will be a huge gain but if they go up gradually then the gain will be spread out.
- Rahul Sharma:** What about the pass through and it goes up very fast are we able to pass it through very quickly?
- Prakash Chhabria:** Again it depends on the season if the season is good yes you can if the season is not good and definitely you cannot.
- Rahul Sharma:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.
- Siddharth Mohta:** Good morning Sir. Sir in case of power segment Sir our EBIT side has gone down from 33 Crores to 8 Crores so can you please highlight the reason and what it can be expected in FY2019?
- Prakash Chhabria:** That is basically because of the coal prices going up.
- Siddharth Mohta:** That the challenge continues to be there.



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- Prakash Chhabria:** Yes but again coal it is going down there are years, which goes up, but it plays within a band. I think that way it is okay if you see compared to the state electricity board the advantage of your own small power plant is that you can continuously steady good quality electricity and that is what helps the production of PVC.
- Siddharth Mohta:** In a way it is being captured in our PVC resin margins also?
- Prakash Chhabria:** Yes and plus it produce the steam so all that steam is for used as a free within the PVC plant after having used it in the combined cycle to produce power.
- Siddharth Mohta:** Sir on this PVC and Ethylene off late EDC price it has gone up if you can just highlight what has been the reason for increase in EDC price and globally any new capacities coming in EDC and Ethylene it was suppose to come in Middle East if I remember?
- Prakash Chhabria:** Yes it was supposed to come in Middle East but again you seen what is happening in those countries over there so there are certain delays because of their own geopolitical those are big pictures. We have zero control over there.
- Siddharth Mohta:** Sir any specific reason why the EDC price it has gone up off late?
- Prakash Chhabria:** You see that happens if you observe it happens every year certain quarter it will spike up for a few weeks then again it go down basically there can be because of plant shutdowns in certain areas, it can be like I mentioned about geopolitical affairs happen if trouble continues while shipment becomes delayed so all of that put together you can have small spikes.
- Siddharth Mohta:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abhishek Anand from Centrum Alternatives. Please go ahead.
- Abhishek Anand:** Thanks for the opportunity. Sir you have always highlighted about expansion in PVC I am not sure if you have highlighted but I just wanted to know about the strategy of resin capacity how do you see that?
- Prakash Chhabria:** PVC resin capacity?
- Abhishek Anand:** Yes.
- Prakash Chhabria:** Like I mentioned earlier we are not looking at increasing as of now.
- Abhishek Anand:** In the next three years also can you just highlight about your strategy suppose if you with that optimal market will you start procuring from outside instead of just increasing capacity here?



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- Prakash Chhabria:** Well at the moment also we buy PVC resin from outside. See the biggest challenge for setting up our new PVC resin plant is the availability of raw material unless that is not locked in properly with a lot of confidence to go ahead and spend a lot of money on capex and then turn on an idle plant is not a correct picture.
- Abhishek Anand:** That is helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from TCG Advisory Services Private Limited. Please go ahead.
- Umesh Patel:** Thanks again. Sir I missed earlier remarks so my question may be repeated again I wanted to know what is the current PVC, EDC spirit prevailing?
- Prakash Chhabria:** See presently it is about 670.
- Umesh Patel:** Okay so it has gone down right.
- Prakash Chhabria:** Yes.
- Umesh Patel:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Avinash Kumar from Dalal & Broacha. Please go ahead.
- Avinash Kumar:** Sir just wanted to know about the third party business which you are telling that it did not take off, can you explain on that what would be the kind of business you were taking like?
- Prakash Chhabria:** I already explained know.
- Avinash Kumar:** No I did not get that.
- Prakash Chhabria:** I have given example of air valve. There were some of the products that we went through and so it is not our cup of tea.
- Avinash Kumar:** Okay both in the agri and the non-agri business, which was...?
- Prakash Chhabria:** Yes we went into this product in both agri, non-agri. On non-agri we looked at high-tech products also not only just low end but even high-tech products where you can control the flow of water per day, per week, per pot, things which can be used within flat, nowadays high-raised buildings with small balconies and people love having small gardens within their balcony basically pot and water in that becomes an issue because you are not always on time, you might be traveling. So there our gadgets available which fits onto your... and they are battery operated which fit onto your tap and you can programme them to run the tap for X number of minutes per



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day or a particular period of time and if you want you can even go into a higher end product where you can control it through your app on the phone so wherever you are in the world. So we look at various things in various platform, low end to high end across.

Avinash Kumar: So we are not pursuing both in the agri and the non-agri going in?

Prakash Chhabria: Not at the moment. I think our hands are full with what we are doing.

Avinash Kumar: Okay. Thank you.

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

Ritesh Shah: Whabi sir you indicated that PVC EDC spreads at this juncture as \$670, did I hear it right?

Anil Whabi: Yes.

Ritesh Shah: And Sir how much will be PVC VCM spreads for Q4 fiscal FY2018 and currently?

Anil Whabi: Currently it is about 160.

Ritesh Shah: And for Sir Q4?

Anil Whabi: For Q4 this was about 200.

Ritesh Shah: And Sir for full year?

Anil Whabi: Full year about 211.

Ritesh Shah: This helps. Sir my second question is for Chhabria Sir. Sir Prime Minister Modi has a vision of doubling the rural income, Sir how do we see this because we will be among the largest beneficiaries of this theme. So Sir what are your takeaways based on the schemes which the government has announced so far basically there are talks about increasing MSP. Sir how do you see this.

Anil Whabi: See I am always thankful to our government I am always thankful to our honorable Prime Minister because their vision of helping the big base of our farmer brothers in the country is very good. It is very good overall for the full country and yes this is specifically it is very good for our company because we are in the agri business. Now we also have a good amount of non-agri but our agri business is very well spread out across the country in all parts of the country, as you empowers farmers as you give them more income as you allow them to make more money, make the market better for them, better place for them, a fair place for them, automatically that translates into they having more money in their pocket which means allowing them to buy more



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products and a product like PVC pipe is something which prove as a farmer needs much more and first of all when any of your other products that you will require. Basically because water is very important, water is important just to drink and water is important for your growing agriculture produce. So I am very happy with what is happening and as I said earlier, our country is huge, our population is huge. It is not necessary that it is like electric switch that you say yes now and tomorrow morning is going to be light. So it takes time and I am very happy it takes time because I prefer taking baby steps, so it works out well for philosophy and works out well for my company also.

Ritesh Shah: And this helps a last. Sir I have a very generic question Finolex Industry is placed at multiples lower than its peers' had, one of the reasons is the volatility in cash flows from the resin making operations. Sir how do you see this spike, is there a thought process wherein we have explore the option of basically disintegrating the company into two separate listed entities, Sir any thoughts over here?

Anil Whabi: See what you are saying is correct, but you see it also has a lot of pluses and lot of minuses, lot of pluses if you write down a lot of minuses if you write down which I do not want to go through now do not give you a clear picture on what direction to take or what is the best, so hence we continue with what we have.

Ritesh Shah: Sir last question any update on the cross holdings that we have with Finolex Cables?

Anil Whabi: That is also as complex as it continues to be so. There is no real... unfortunately I am not able to give you any clear answer on that.

Ritesh Shah: That helps Sir. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Just a small clarification I wanted to check with you with respect to the NJT orders on the lead in pipes what is the current status how do you see it will it increase cost for us, for the industry, and the compliance part of it?

Anil Whabi: See whatever is taken out as a rule Finolex will be the first person to comply with it, that goes without saying. When it comes to costing yes there could be a little bit of price increase or cost increase not price increase but cost increase in the production, which will get normalized over a few months because it is just an adaptability issue the plan has to adapt to a new product that is all. It is not like a permanent impact on the company it is just a adaptability thing, it takes time, it will take time and that is it. Now when that happens the company will be much more strongly and better poised than the rest of the people.



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- Achal Lohade:** Have we already started doing that or...?
- Anil Whabi:** That is something going on for a long time.
- Achal Lohade:** And how much would be the cost increase roughly?
- Anil Whabi:** That I cannot tell you now because we also do not have a correct picture like I said it will take time to get a correct picture on that, so we cannot tell that to you now.
- Achal Lohade:** But right now at the industry level it is not happening just like us right, it is still on the testing phase?
- Anil Whabi:** Yes. There are certain products which are already lead-free that CPVC lead-free, ASTM is lead-free. There are many products which are lead-free. It is not that we are not used to producing products without lead we are use to that but to bring in adaptability across and that to for such a huge plan 250,000 tonnes, it takes little time.
- Achal Lohade:** Great sir thank you so much for the clarification.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I now hand the conference over to Mr. Ritesh Shah for his closing comments.
- Ritesh Shah:** Thanks Lizanne. Chhabria sir any closing remarks from your side?
- Prakash Chhabria:** I am thankful for everybody to attend the call. Thank you very much.
- Ritesh Shah:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Investec Capital Services that concludes today's conference. Thank you all for joining us. You may now disconnect your lines.