



"Finolex Industries Limited Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Finolex Industries Limited Q2 FY'14 earnings conference call hosted by Ancial Advisors Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now like to hand over the conference over to Mr. Pradip Seth. Thank you and over to you Mr. Seth.

Pradip Seth: Thank you Karuna. Good morning to all of you, I on behalf of S-Ancial welcome you to the second quarter FY'14 analyst conference call of Finolex Industries Limited represented by Mr. Saurabh S. Dhanorkar, Managing Director and Mr. Mandar B Ratnaparkhi, the CFO. I now hand over this call to S.S. Dhanorkar for the opening remark. Over to you Sir.

Saurabh S. Dhanorkar: Good morning everyone. I welcome all of you to the second quarter earnings conference call. Mr. Prakash Chhabria is not well and hence is unable to attend this call. Revenues for the first half of this year was Rs.953 Crores as compared to Rs.901 Crores in the first half of last year growing by about 6% on a Y-o-Y basis. EBITDA for the same period was Rs.176 Crores vis-à-vis Rs.155 Crores in first half last year growing at 14% on Y-o-Y basis and profit after tax was Rs.50 Crores in the first half this year against Rs.26 Crores in the first half of last year. Our revenues for the quarter ended September 30, 2013 were flattish at Rs.390 Crores as compared to Rs.381 Crores for the same quarter last quarter a growth of about 2% on a year-on-year basis. The net profit for the quarter was Rs.27 Crores as compared to Rs.40 Crores on Y-o-Y basis. All of you must be aware that our business during July to September quarter is always subdued as compared to the other quarters. Almost two-thirds of our sale of PVC pipes and fittings happened during the second half of the financial year. This year the monsoon started early almost in June and continued almost into October. This affected the demand for PVC pipe during the quarter ended review. The prices of PVC resin are linked to import parity. The sharp increase in value of US dollar resulted in higher prices which the company was able to pass on to the customers. This is evident from the improved gross margins of the company. The company also continued to sell pipes in the region which do not get rainfall due to the South West monsoons winds through its strong distribution network which makes it a pan India player. We see the demand for PVC pipes and fittings to grow substantially in the second half of the quarter on the back of the good monsoon and we continue to expect good growth in the future. I will be happy to answer any questions now thank you.

Before starting the question I would like to make a small announcement on the presentation which we have uploaded in the site yesterday on Page 4 which talks about the business performance there is a slight mistake, the quantities of PVC pipes and fittings and quantity of PVC have interchanged that

reflects incorrect picture, we will be uploading the corrected slide immediately after the conference call. In the meantime, I will request Mr. Ratnaparkhi our CFO to just point out that correction.

M. B. Ratnaparkhi: Good morning on page #4 in the presentation last year quantity of PVC pipe should be 36,696 and PVC should be 42,863 this was interchanged and now we are correcting it.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Mr. Rajeev Desai from IFCI Financial Services Limited please go ahead.

Rajeev Desai: Hello, yes good morning. Sir just line with the same quantities which you have asked us, I am still not able to basically get that information correctly sir, which you said that sir the presentation says that PVC quantities 36,696 currently so which I need to interchange with 42,863?

Saurabh S. Dhanorkar: Right and quantity of PVC is 42,863 and PVC pipe is 36,696.

Rajeev Desai: So if I interchange also just in line with that if I see it sir there is a marginal increase basically the pricing of your PVC if I see where the rupee depreciation in one year is 20%, here I see the PVC pricing per kg if I see it on a realization value like last year it was 65 and now it becomes 70 comparatively fittings are basically grown proportionately from 81 to 94, so just can you throw light on that?

Saurabh S. Dhanorkar: You are right actually but when we talk about 20% depreciation that is from the bottom to the peak

Rajeev Desai: Sir but just last year to this year the same thing, from last Diwali to this Diwali is that right?

Saurabh S. Dhanorkar: That is right, but the actual price changes do not happen exactly in line with the changes.

Rajeev Desai: Just wanted to understand the process behind it like the kind of realization on PVC fittings?

Saurabh S. Dhanorkar: Actually when you look at the quantity of PVC pipes and fittings this quarter, the PVC fittings are sold at roughly Rs.1,30,000 per tonne whereas the pipes are roughly between 80,000 to 85,000 per tonne depending on the season, so the fittings has much, much higher realization and this quarter the proportion of fittings is higher that is why the realization in the quarter is much higher compared to the increase in PVC realization side, that is one reason and second what we have been doing consistently in the last six months is increasing the gross margins in the PVC pipe business so that is also reflecting, you are operating on a almost steady margin for number of years and as we discussed in the last conference call we have been steadily taking up the PVC pipe prices higher than the increase or decrease in the PVC resin prices, so actually there had been steady increase in the margins on the PVC pipe business.

Rajeev Desai: Okay sir if you say that way rise in the margins, then I want to like to clarify just one thing, if you said that the proportion of fittings is higher this year, as I see it, it is actually reversed. Last year the fittings proportion was 46%, this year it is 39% of the total net from between pipes and pipes fittings this quarter so that is one thing. Leave apart that you have increase the pricing and the pricing has basically curtailed like when you pass on to the customers then also if I see that way then on a year on year number, the gross volume because of monsoon have declined. In that sense do you see basically what is happening on the micro front because last year also it was a good monsoon, but this year the overall tonnage has gone down from 79,000 to 75,000 metric tonnes, so just wanted to understand that impact. What it is this year? Is there really some demand declining for this year or what is it I just want to have your perspective?

Saurabh S. Dhanorkar: Basically when you are talking about the PVC pipe demand the actual sale happens only when the ground is dry, even if it is raining intermittently and if the ground is wet the farmer is not able to dig trenches and lay the pipes because all the PVC pipes especially for agriculture are all laid underground so the farmer will start only when there is a clear sunshine for a fortnight or so, and unfortunately during this whole quarter that did not happen at all except for few states like Tamil Nadu and all those places where there was no monsoon, so that has really affected the demand. We do not see structurally anything going wrong at all. In fact this is a very, very strong reason for the demand push to come post monsoon, we are already seeing now after October the demand picking up substantially, our dealers are very, very upbeat about the demand because there is good purchasing power with the farmers so this dip in the quarter is not for us, it is not at all disappointing we are in fact very happy that the monsoon has been good and we are confident of making up for this shortage in the coming month.

Rajeev Desai: But just on your perspective, do you feel that there is at some price point a demand deception because the number would really signify something sir.

Saurabh S. Dhanorkar: No sorry I did not get it but you mean because of the higher prices if the demand affected.

Rajeev Desai: Yes or is this because of competition. As your pricing would be higher as compared to your peers has that impacted your volumes.

Saurabh S. Dhanorkar: That is one, but of course this peak in the PVC resin pipe prices has happened during the monsoon season so we really have to test whether the high prices are going to affect demand to some extent. Yes we were hoping for a 18% to 20% growth that may be moderated to may be 14% - 15% but we do not see a substantial dip in demand primarily because PVC pipes is such a product which has no substitute, if the farmer say the prices are too high and if he had an option to go to some other product then I can understand but the only remote substitute is polyethylene pipes which are much, much costlier those prices have even shot up much higher than this steel or concrete is no more solution so

basically as long as we are in line with the market I think we do not see a dip in demand coming because of the prices as long as purchasing power is of course with the farmer.

Moderator: Thank you. Next question is from the line of Mr. Rahul Gupta from Transcapital. Please go ahead.

Rahul Gupta: Good morning sir. See basically on your forex thing I want little more clarity because in the last call you said that your hedging and policy stated hedging policy 50% hedge and 50% you keep it open and the exposure was to the tune of \$120 million so if I keep these as the benchmarks and do the working so our estimate was roughly to the tune of 20 odd crores but the number which I see in your presentation is 30 Crores can you please take us through the math.

Saurabh S. Dhanorkar: Frankly offhand I will not be able to comment on exact on how many million we have lost how many crores but the policy what we have stated holds good in fact now at when the dollar rupee has come down to 61–62 these levels we find as good levels, frankly though as a policy we had decided to cover at 50% when it went to 67–68 we took a call because at those levels we did not find it worthwhile paying Rs.3–4 further on the premium and booking at locking in at 71–72 so may be for some period we went below 50% but today we are almost 72% covered because at these levels 61–62 levels we think these are good levels and we have taken bulk of the covers now.

Rahul Gupta: So this 72% is as of today.

Saurabh S. Dhanorkar: Yes, as of today.

Rahul Gupta: And quantum of exposure will be?

M.B. Ratnaparkhi: Quantum of exposure will be about \$90 million.

Rahul Gupta: So going forward what is going to be the strategy is it going to be close to 50% covered or close to 3/4th covered what exactly is going to be the strategy going forward.

Saurabh S. Dhanorkar: See 50% is a benchmark, which we have kept in the mind but we do not follow a very mathematical regime of covering the movement we open an LC cover 50% because we also go by what the situation is in the Forex market, oil market we do take some calls of course not very aggressive calls so as I said today we feel 61–62 levels are good so we are 72% covered. If it drops to may be 60 we will cover much more and is one strategic decision which we have taken and, which is getting reflected in the numbers now slowly is that we are basically cutting down on our Forex exposure to the extent possible earlier we used to take buyers credit on all our imports today we have stopped doing that we take it only to the extent of working capital requirement, two we are also relying now more on rupee funding than earlier, so in this volatile situation we expect the volatility to increase as

we go towards election season, so during the current days we want to be more hedge than we would have been earlier. Again I am not stating this as a long-term policy of the company if after election things stabilize and there is more stability in the exchange rates then we may bring it down to may be 40% or 50% but currently we would definitely want to be always more than 50%.

Rahul Gupta: See sir but when you yourself are saying that things are volatile as they appear to be and are not in your control. So why do you want to take any call on the Forex side. Actually why do you not sort of totally immune yourself from Forex volatility?

Saurabh S. Dhanorkar: As I said, if I had done that and if I had covered myself entirely at Rs.68 this then today I would have been sitting on a position of Rs.72 and one thing you must understand my selling price is also entirely dollar denominated though I do not really export but my PVC selling price may be with a lag of maximum two weeks is link to the import parity so when the dollar went up from 60 to 68 my PVC and my pipe prices went up in the same proportion may be slightly more than that we had 7 to 8 correction when the price dollar has moderated we have brought it down also. So my selling price also takes care of this extreme volatility in a much closer fashion than if I were to cover for the next three months four months at Rs.70 – Rs.72 so we find this is a slightly better way of handling things.

Rahul Gupta: And you are working with March 2014 dollar price of what actually, see you are saying that you would like to remain open at least 25% to 30% you must be working with some dollar price as per your estimate for the March 31, 2014 so what could be that number?

Saurabh S. Dhanorkar: No frankly we are immune to that number because if the price goes up our selling prices go up if the dollar rupee goes up our selling price is go up if it goes down our selling prices go down so I do not need to have a fixed price because I do not make any long-term commitment from my sales we do not do any government contracts where I have to have a fixed price for the next six months or so. So this could be more relevant if I were to take a dollar rupee rate in my calculation and fix my selling prices accordingly, but I have a complete flexibility on the selling prices so frankly that concept of having March 2014 rate in mind does not really apply to me.

Rahul Gupta: By today evening can you please send the details of these 30 Crores realized loss as those numbers are not readily available with you will it be possible to mail it across to us.

Saurabh S. Dhanorkar: Sure definitely.

Rahul Gupta: And one more thing from the macro point of view is there any visible shift that we are seeing of late from unorganized to organized when it comes towards market.

Saurabh S. Dhanorkar: There is actually, again the pipe market is so scattered and so unorganized or undocumented I would say that it is very difficult to plot it on month one basis but on a macro basis absolutely right because the incentive of remaining in the unorganized sector for small players is disappearing with one of course with the VAT and GST coming in and two with the tax authorities getting stricter so the basic reason for remaining unorganized was to evade taxes and I think that is going away so I think going ahead we see better things coming for organized players.

Rahul Gupta: And in this environment where the demand environment is not very conducive does the strategy of maintaining premium prices and on top of that have you in any way scaled down your volume growth projection of attaining 15% on a base of 1,76,000 metric tonnes which you did last year do you think will it be possible actually?

Saurabh S. Dhanorkar: Yes we are very confident of that. See premium pricing is something, which we have learned to live with and this variation is not for the first time. In fact in our pipe business there is always every year a seasonal variation, sometimes the monsoon in the past had extended up to November and still we have grown in double digit and sometimes the monsoon has been short so frankly seasonal variation does not have such a huge impact on the demand because India is structurally under irrigated and especially on the agriculture side there is a huge potential which needs to be tapped and prices going up and down may have a temporary dip but structurally we see the demand going up and frankly I do not agree with your statement of subdued demand, yes, monsoon has had an impact, but we are confident and we have seen in the past that when the season starts, this shortfall is made up very, very fast. So, probably when we talk after the Q3 call, I will have better numbers to talk about.

Rahul Gupta: Okay sir, now the uncontrollable factor behind us, basically I am referring to monsoon, so have you seen any demand pick up in the month of October which can give us confidence that you know 15% is very much insight?

Saurabh S. Dhanorkar: Yeah surely, which will mean again October when I say October till mid of October because of these Cyclone Palin there were rains almost all across, but even post Dusshera because many of the Indian farmers buying is linked to the Indian festivals and post Dusshera we have seen a very strong demand pick up now, that gives us very, very great confidence in saying that yes, we will make up for this and we will achieve that growth.

Moderator: Thank you. Next question is from the line of Mr. Aksh Vora from Praj Investments. Please go ahead.

Aksh Vora: Thanks for the opportunity sir. Sir this loss of 32.56 Crores of derivatives, what does this pertain to sir?

Saurabh S. Dhanorkar: This is not derivative, this pertains to our normal imports of raw materials and open positions on that, this is nothing to do with any derivatives, normal forex loss.

Aksh Vora: Sir can you give me the status of disputed derivative transactions with banks, there was 116 Crores which was there in annual report and contingent liabilities, what is the status of that sir?

Saurabh S. Dhanorkar: No, that continues to be under litigation and going by what the Indian legal system goes through we don't see an earlier resolution to this probably this will continue for another couple of years.

Aksh Vora: Sir, are there any further derivative loss exposures in coming quarters?

Saurabh S. Dhanorkar: No, there is nothing because we stopped doing derivatives in 2009, so these are only the hangover of the old deals, now nothing more itself.

Aksh Vora: One more question was like in corresponding previous half year, you have shown 77 Crores of foreign exchange losses both realized and unrealized, can you give breakup of what this pertains to?

Saurabh S. Dhanorkar: I don't have the figure, but that includes part of derivative settlement. But that was one of the deals earlier if you remember the contingent liability was more than 200 Crores, this includes about 30 odd crores which was part of the derivative settlement and the rest was normal forex loss.

Aksh Vora: Okay, you don't have the breakup sir?

Saurabh S. Dhanorkar: Frankly at this moment I don't have the exact number.

Aksh Vora: Okay and sir lastly just for my knowledge, I wanted to understand what is realized forex gain loss and unrealized forex gain loss?

Saurabh S. Dhanorkar: See on the accounting end of the quarter or end of the year, you have to translate all your foreign exchange liabilities into rupees on that rate prevailing as on that date. So, if I have an open exposure I am not making the payment at say Rs. 65 if the rate on 30th September was Rs.65. I am not making a payment at Rs. 65, but I value my liability at Rs. 65 and if my purchase on the date of my purchase dollar was Rs. 62, I book at Rs.3 notional loss which is unrealized loss. Realized loss is where I have actually made the payment during the quarter and so that cannot be changed now.

Aksh Vora: Okay. So this unrealized forex gain losses is particularly on non-cash item right?

Saurabh S. Dhanorkar: Correct.

- Moderator:** Thank you. Next question is from the line of Mr. Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good morning sir, good set of operational numbers. Sir, few questions on the balance sheet side, the loans and advance figure has increased dramatically, does that include ICDs and how much is that figure?
- M.B. Ratnaparkhi:** There is no ICD taken in this figure, it is mainly because we have taken higher forward covers, accounting standard requires the booking of advances and also the liabilities and that is why this entry is coming there.
- Bhavin Chheda:** If I see your short terms loans and advances which is the part of current asset that has gone up from 198 Crores in March to almost like 324 Crores on September 2013, so what would be that incremental or the total figure breakup, if you can give us a breakup of 324 Crores short term loans and advance?
- M.B. Ratnaparkhi:** Basically, the increase purely on account of the forward cover that we have taken. There is an entry which has to be booked as receivable, because we are going to receive the foreign exchange amount from the bank, it has to be recorded in the book and that is why the loans and advanced have gone up.
- Bhavin Chheda:** So, you are saying that when that forward covers would unwind obviously that will help to reduce the overall loans in the balance sheet.
- M.B. Ratnaparkhi:** Correct, this is the notional amount. So there will be a reduction in the current liabilities in the loans and advances when we actually make the payment.
- Bhavin Chheda:** Okay, other thing, if you can share the production numbers also of PVC resins and PVC pipes and fittings for the quarter and corresponding figure last year?
- M.B. Ratnaparkhi:** PVC resin current quarter it is 41,000 tonnes that is production and the last year it was around 45,000.
- Bhavin Chheda:** Okay, pipes and fittings would be?
- M.B. Ratnaparkhi:** Pipes and fittings this year is 45,700, which was 43,000 last year.
- Bhavin Chheda:** What could be the FY14 guidance for resin production and pipe production?
- Saurabh S. Dhanorkar:** For the resin production, the guidance will be 2,50,000 tonnes and pipes would be around 2,10,000 tonnes.

- Bhavin Chheda:** Okay, so you will be producing to your full capacity.
- Saurabh S. Dhanorkar:** Even during monsoon we have continued to produce we did not stop completely, there is some inventory in the system currently which will get wiped out once the demand starts.
- Bhavin Chheda:** So, if I am seeing your pipes production for first half, it was 1,02,000 right and you have sold just 83,000, so there is a lot of pipe inventory which could be sold in the second half.
- Saurabh S. Dhanorkar:** Yeah, surely.
- Bhavin Chheda:** Okay and in terms of price hikes, if you can explain what kind of price hikes you have taken in PVC resin as well as PVC pipes in first half?
- Saurabh S. Dhanorkar:** In what half, probably what we can do is, we can send you separately because we had almost eight price changes during the first half, five upwards and three downwards, so when the dollar rupee was moving up as I said we had almost every 10 to 15 days a price hike.
- Bhavin Chheda:** Okay this eight price hikes is in pipe segment right?
- Saurabh S. Dhanorkar:** Both, PVC resin and pipe both move in tandem, only thing in pipe, because we have greater control on the pricing we have taken the prices higher than the increase in the PVC resin prices, so when the PVC resin prices went up by Rs.3 today, my pipe prices went up by Rs. 3.5 to Rs.4, that is the kind of this, they both move in tandem the same day we change both.
- Bhavin Chheda:** Okay and to understand this forex statement correctly; if my understanding is correct 86 Crores is the MTM which have been booked on the raw materials in the first half on payables, but the price hike would be slightly with a lag impact, so when rupee is stabilizing to appreciating, so the gains what would come above the EBITDA line in second half number right?
- Saurabh S. Dhanorkar:** Correct, exactly.
- Bhavin Chheda:** Which means we are heading for a much higher EBITDA margin going forward if I see quarter one EBITDA was 15, 16%, this quarter was 20%, so we are heading for much higher EBITDA margins in second half?
- Saurabh S. Dhanorkar:** Yes you can say that.
- Bhavin Chheda:** Will that be a write back of the forex losses which are the unrealized portion or even that would come above the EBITDA line in the NSR number?

Saurabh S. Dhanorkar: No, there would be to the extent of the unrealized portion, there will be right back of the unrealized losses.

Bhavin Chheda: Okay and sir last question, what is your Capex number for this year and next year and any other projects at the planning stage?

Saurabh S. Dhanorkar: No except for the remaining part of Masar expansion for the pipes which will happen this year, so about 20 Crores to go this year and next year would be just normal maintenance Capex, so no major expansion plan now.

Bhavin Chheda: So, this year total annual Capex is 20 Crores.

Saurabh S. Dhanorkar: Yes.

Moderator: Thank you. Next question is from the line of Mr. Viraj Mehta from Franklin Templeton. Please go ahead.

Viraj Mehta: Hello sir. Congratulations for great set of numbers. Sir, just few questions, I have a basic question regarding the usage of pipes, so what will be your split in terms of housing infrastructure and agri for us?

Saurabh S. Dhanorkar: For us it is 70 for agri and 30 for housing.

Viraj Mehta: 70 for agri and 30 for housing, then should not it be counterintuitive in the sense that this should be or will the agri usage starts after the monsoon are over.

Saurabh S. Dhanorkar: Yes, it does always start after the monsoons are over, because as I explained in the earlier part of the conference call, the agri pipes are laid underground which means the farmer has to dig trenches in his land and lay the pipes, so as long as the ground is wet, you cannot dig trenches, the ground has to be hard for digging the trenches and putting the pipes inside. Only when the monsoon stops completely and there is enough sunshine for about 8 to 10 days to make the ground dry that is when the demand starts.

Viraj Mehta: Sure, sir you know if you can split up your commentary in terms of what is the uptake, you said you are seeing uptake post October second week, the uptake is coming from higher from agri or is the uptake coming more from housing, rural housing?

Saurabh S. Dhanorkar: Agri, for us, the uptake is really the agri. Rural housing for us is more of a steady business, it does not have to do anything with monsoon, of course during monsoon even the construction activity does

slow down, but it does not come to a standstill whereas in agri it drops dramatically because of the reason as I explained because the farmer just cannot use the pipes during that period. So the real strong growth comes from agri.

Viraj Mehta: So, this year when you're talking 15% or 12% kind of volume growth, do you see all of that growth only coming from agri or do you see the housing also growing by the same amount?

Saurabh S. Dhanorkar: No, we see the housing also, as I said housing has been also growing steadily more than 10%.

Viraj Mehta: Okay and sir going forward, do we have plans of launching any newer product in housing, piping or anything? If I look at your product portfolio in housing and compared to you know all of your competitors including the Astral of the world and Supreme, Prince there are a lot of things that are missing. I am not sure whether you agree with that statement or not, but if you feel so, do you see better launches or newer products that we would actually come out with?

Saurabh S. Dhanorkar: No, I think probably you are referring to CPVC pipe which we also make, it is not that we do not make the CPVC pipe, but for us frankly that is not a focus area for two reasons, are you referring to CPVC pipes in the first place?

Viraj Mehta: First place is CPVC pipes, second is you know even within PVC pipes there are several variations like you know noise redundant pipes, there are several, I am not saying that they might be really effective in what they do, but at least it helps a lot in terms of you know marketing and it helps a lot that we have 10 different products whereas if you look at Finolex product that is one or two products that's it, you know.

Saurabh S. Dhanorkar: Yes, that is right, you are right, these noiseless pipes and all that these are now coming into the market and these are very, very niche product, it is not that we do not study them, we have studied them and we do not see any great volume growth coming there, because these are required only for very, very high end buildings and may be constructions like hotels where we see the volume not really conducive to efforts which needed to promote them and for a company which is predominantly agriculture based and rural, because of our focus have also been rural not so much as urban. So, we are there in the market, it is not that when our dealer wants certain product like CPVC we are there in the market to service him, but we do not intend to get into 10 different products and run all around the place and especially the construction market which we have a presence through our distributors we do not take any direct exposure to any of the builder unlike some of the competitors who work on projects and who take exposure on builders. Our policy for all our sales is 100% advance and selling to builders directly with no bad things about any one, but we find it is slightly risky, so we do not really focus much on that segment.

- Moderator:** Next question is from the line of Mr. Neeraj Marathe from HU Consultants. Please go ahead.
- Neeraj Marathe:** Hello. Most on my questions have been answered, one major thing was about those quantitative details which have been solved, just a couple of questions on the balance sheet side. Firstly, last year also we had seen if you compare September 2012 with March 2012 the balance sheets, there has been overall shrinkage in the working capital, so payables have gone down as well as receivable have gone down. This year we see that payables have gone down far more, okay in terms of absolute numbers also, so a lot of cash which was in liquid fund seems to have gone into payment of the payable. I just wanted to have understanding about what has changed in that, so that was the first question. The second question was in the presentation, I do not know if there has been some mistake or something, in this quarter, the capital employed in our power segment has suddenly gone down by 72 Crores, so is there some I did not understand why that has happened, so just wanted bit of color on that also.
- Saurabh S. Dhanorkar:** On the payables, basically our payables have always been mainly foreign exchange, because the raw material is all imported, the payable basically exposes us to foreign exchange risk and as a strategy we have decided to cut down on the forex risk, so we have used up our investments to bring down basically the payables level which means in effect the forex levels. On the capital employed, basically it includes the stock levels, because the capital employed is not only the Capex, but also the stocks and I think the coal stock has gone down, but coal prices have come down dramatically and coal stock was also priced lower, so that is bringing it down.
- Neeraj Marathe:** Okay that suddenly seems extraordinary, so I just wanted to have a view on that, third thing is, I just wanted to ask you, overall the price differential, so we have PVC manufacturing through two routes. There is a price differential in that we get advantage in terms of manufacturing to the EDC as well as VCM route, so just wanted to have idea about on dollar denominated basis per tonne how much would that differential be?
- Saurabh S. Dhanorkar:** The selling price of course of PVC resin is the same, but on the cost side, there is a much greater value addition from EDC to PVC route, because EDC continues to be around \$350 and PVC is about \$1000 plus, so almost \$700 dollars delta EDC to PVC whereas the VCM to PVC is between 160 to 200 dollar, so that is much smaller delta there. Gross margins are much higher on the EDC route, the only difference is that VCM to PVC route, the Capex came at a much lower figure. The reasons are going for that route was we did the doubling of the PVC capacity at less than one-fourth of the original cost. So, overall if you see, it is a good balance we see.
- Neeraj Marathe:** Okay fine, sir my last question was with result to the PVC sales, resin sale numbers around 46,000 tonnes that we have had. Can you just split it up for us between the PVC consumed internally and sold outside?

- M.B. Ratnaparkhi:** For the quarter you want or half year?
- Neeraj Marathe:** Yes, for the quarter.
- M.B. Ratnaparkhi:** For the quarter, it is 15,000 tonnes has been sold out side and the balance is consumed in house.
- Neeraj Marathe:** 31,000 odd in house.
- M.B. Ratnaparkhi:** Yes.
- Moderator:** Next question is from the line of Mr. Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Very good morning. Thank you for taking my question. Sir on the balance sheet current investment has become zero, because your payables are reduced right?
- Saurabh S. Dhanorkar:** Yes.
- Maulik Patel:** Can you tell us what is the pricing difference between fittings and pipe in your agriculture segment?
- Saurabh S. Dhanorkar:** Fittings are higher by almost Rs. 35,000 to 40,000 a tonne.
- Maulik Patel:** Okay, so it will be closed to around 1,10,000.
- Saurabh S. Dhanorkar:** More than 1,25, 000 fittings.
- Maulik Patel:** What percentage of volume that contributes?
- Saurabh S. Dhanorkar:** That would be about this quarter it will about 15%, it varies between 10% to 15%, this quarter it is around 15%.
- Maulik Patel:** For a full year, it will be around 8% to 10%.
- Saurabh S. Dhanorkar:** Yes.
- Maulik Patel:** Okay and can you say outlook on PVC spread going forward and what type of the outlook you look into the PVC spread in the resin business?
- Saurabh S. Dhanorkar:** Resin business, basically what has changed structurally in the last one year and going ahead we see that it improving, on the EDC to PVC route, the margins are going up dramatically that is largely because a lot of fresh EDC capacity is coming up globally it has partially come up in the Saudi Arabia

and Indonesia and very large capacity is coming up in US and this is not really supported or backed by any corresponding increasing the PVC resin consumption, the EDC consumption, so almost more than 2 million tonnes of fresh capacity in EDC is coming up on the current level of about 2.8 million tonnes, so almost 80% of fresh capacity is coming up which is struggling to find buyers so EDC prices have remained sluggish and we expect them to go down further. We have certain part of our buying based on long term contracts and we are able to currently able to negotiate good discounts on our contract. So, we see the margins definitely improve on that business.

Maulik Patel: Whatever we produce in the PVC how much would be from the EDC route and VCM route?

Saurabh S. Dhanorkar: About 60% from the EDC route and 40% from the VCM route.

Maulik Patel: You see that there is structurally any advantage will be there for the next year or two in improving track from the resin side?

Saurabh S. Dhanorkar: At least next three years, I would say before any fresh capacity to consume the EDC concept, so at least for the next three years, we see a structural improvement in margins.

Maulik Patel: How much of your raw material of the EDC and VCM you would buy on the long term contract?

Saurabh S. Dhanorkar: Almost 80% is bought on long term contract, but these long term contracts are based on or they are not fixed price contracts, these are based on the Plat reports, so basically they also reflect the market conditions.

Maulik Patel: Okay, I think it is only the volume we switched whether pricing is on plat side.

Saurabh S. Dhanorkar: Correct.

Maulik Patel: Sir, can you guide something on your debt side, what type of debt you are looking at the end of the year FY14 and because you don't have a much of the maintenance Capex even in the FY15, so are we going to throw down debt position going forward.

Saurabh S. Dhanorkar: Yes, we expect the debt levels to go down continuously from a year to two year, of course we are now generating good cash flows, so after dividend whatever is remaining not much will be going into Capex, so that will go primarily to reduce the debt.

Maulik Patel: What is our debt to interest cost?

Saurabh S. Dhanorkar: Interest cost on rupee borrowing currently is around 11% and forex of course the cost is very, very low, but including forward cover it comes to about 9.5%.

Maulik Patel: What is your dividend payout policy?

Saurabh S. Dhanorkar: We don't have a declared policy and we would not like to make that as a statement but if you see in the last, it has been around 50%.

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

Kashyap Pujara: My question, I have two questions. First is that considering that you know you have a very healthy spread on the resin front and you mentioned that globally capacities are not coming up and you have three year kind of in advantage then in such a case why have a 50% kind of hedge and why not you know completely hedge the foreign exchange at the time when it crystallized since any which way business has a reasonable spread so why what is the philosophy behind keeping that volatility active, that is the first question that I have.

Saurabh S. Dhanorkar: Basically as I said though we have a healthy spread but our selling prices are a direct reflection of the import parity, so in a way we are completely dollarized because not only our PVC resin prices, but our pipe prices also reflect the dollar rupee, so locking myself completely at a artificially higher level as I said today giving a live example if I had covered myself during the last quarter at Rs. 68 plus premium may be Rs.71, Rs.72. my selling prices also when the dollar rupee corrected, my selling prices have come down, so it is not in my interest to lock up completely and blindly. We do of course lock in wherever we see good opportunities or reasonable level like as I said 61, 62 level. We have locked ourselves in because we see this as good level.

Kashyap Pujara: I agree, but the point is we are in the business of PVC in that sense or you know pipes in that sense and not in the business are taking up the call and commodity of the currency and while the import will be say one or two month kind of import that we will have, so essentially over the year it will get averaged out, so if your business any which way is profitable, there is a reasonably good demand you have a very good policy of basically selling on advance in that sense, so you have very negligible receivable, so I think everything is going fair and if this volatility is removed, it gives far more predictability to numbers, there is only point I had to make.

Saurabh S. Dhanorkar: I agree because of this mark to market provisions, the numbers get distorted on a quarter-on-quarter basis, but as I said if you take a longer term view, the volatility in the foreign exchange is passed on our selling prices, so quarter-on-quarter you will see variation, but you will see the annual numbers, you will see the despite the foreign exchange hit, we are still making better margin, but your point is well taken.

- Kashyap Pujara:** Okay and second question was, that incrementally how much can I see us you using more of the resin to make the polymer to make the pipe eventually rather than selling the PVC directly. Can we really integrate and sell it as a pipe or as a fitting and what can be that road map?
- Saurabh S. Dhanorkar:** See today, we have already come to a level where almost 70% more than 75% of our resin is used captively and we are undergoing the expansion at Masar, so by next year, we would be consuming much more, so as we go ahead we see ourselves as a PVC pipe player, we are not really PVC resin player, PVC resin will be only support activity for pipes and we would be consuming entirely captively.
- Kashyap Pujara:** So can we estimate that if I what to take a two or three road map, can we have 100% usage internally or close to 90% usage internally.
- Saurabh S. Dhanorkar:** 100%.
- Kashyap Pujara:** That would be playing out.
- Saurabh S. Dhanorkar:** Yes surely.
- Kashyap Pujara:** Last question would be that since you have 70% pipe which is going to agri that as such it is a volume game and not a profit game, because the profits are really in the plumbing front because that is why we have higher accessories portion that you actually end up selling. Going forward what is the kind of investment that you see, that you will make to basically step up the molds that you have.
- Saurabh S. Dhanorkar:** No, I think there is some misconception here. The fittings which we sell at a much higher price are also for agri segment, it is not just plumbing because all the pipes require elbows and bends and couplers and joints, so for us the proportion of fitting also is the same for agri and plumbing, so we keep adding to the molding capacity, we will be doing that, but that is not necessarily for plumbing that it will be for agri also.
- Moderator:** Thank you. Next question from the line of Mr. Ravi Shenoy from Motilal Oswal. Please go ahead.
- Ravi Shenoy:** Good afternoon sir. Three questions from my side. One is that we talked about Capex seeing about 20 Crores this year. What would be normal maintenance Capex over and above this Capex.
- M.B. Ratnaparkhi:** Roughly around 15 to 20 Crores.
- Saurabh S. Dhanorkar:** When I say 20 crores, I was talking only about the remaining part of the year, so total Capex for the year would be about 40- 45 Crores.

- Ravi Shenoy:** Okay and could current debt be broken down into INR and forex?
- M.B. Ratnaparkhi:** Currently, the foreign currency loans only in the forms of buyers credit which is around 500 Crores and the rest is entirely in rupee terms.
- Saurabh S. Dhanorkar:** Okay and any repayment schedule policy for the INR debt?
- M.B. Ratnaparkhi:** In the INR debt, there is a part of the old loan which was taken five years back and will be repaid in November that is around 100 Crores and rest is repayable after four and five years, so not in the immediate future.
- Ravi Shenoy:** Okay and last question from my side, inventory gains on the resin side if you could quantify that actual for the quarter?
- M.B. Ratnaparkhi:** We will have to work out and get back to you.
- Moderator:** Thank you. Next question is from the line of Mr. Tanuj Makhija from Ambit Capital. Please go ahead.
- Tanuj Makhija:** Hi sir, a couple of questions from my end. First question, we have seen that the mix of urban housing has increased from 10% to 20% in the last couple of years, how do you see this mix during the next two to three years?
- Saurabh S. Dhanorkar:** No urbanization will continue to grow and we expect this two to add to the urban housing demand frankly on a macro level, I would not be able to give you the numbers, what it would be like, but yes, as an additional happening we see that demand growing.
- Tanuj Makhija:** What are the steps that you have taken to increase the mix to urban housing?
- Saurabh S. Dhanorkar:** No, we do not intend to increase our exposure to urban housing for the reason I stated earlier in the call that the housing sector involves selling to builders who necessarily demand credit and as a policy we do not sell on credit, so our focus will continue to remain on the agri business. We will continue to grow naturally in the construction segment also as the market is growing, but we do not intend to change our mix from agri to construction.
- Tanuj Makhija:** Okay and sir my second question is that most of your peers have technology tie ups with global players, do you tie up with global players as well and how do you develop new pipes or fittings within your portfolio?

Saurabh S. Dhanorkar: I do not think most of our peers have global tie-up except if you are talking about one who is particularly in the construction segment, but otherwise PVC pipes per se is not a very high technology business and we have been in this line for the last 30 years, we have the best of engineers and we do the development and we have proper R&D department, we do the development ourselves.

Tanuj Makhija: So you would continue to develop your products in house.

Saurabh S. Dhanorkar: Yes.

Moderator: Thank you. Next question is from the line of Ms. Shazia Naik from Anavaran Investments. Please go ahead.

Shazia Naik: Sir, thank you for taking my question. I actually joined the call, a bit late so I missed your guidance on volume growth for pipes and overall?

Saurabh S. Dhanorkar: For the pipes, we have given a volume growth of about 15%.

Shazia Naik: For FY14 is it?

Saurabh S. Dhanorkar: Yes, for FY14.

Shazia Naik: Okay and I understand that normally the monsoon has a seasonally weak quarter and it generally ramps up post that, but can you throw some color on that and since the elections are expected next year should we see any momentum from that for the rural agri segment as such.

Saurabh S. Dhanorkar: In fact I think I covered this earlier, but I will just rephrase that. Basically you are right, monsoon does affect the demand because the farmers can't lay the pipelines during monsoon, but a good monsoon also results in good purchasing power with the farmer. This year we have seen even the government's purchase rates have been higher and there is good purchasing power with the farmers, so post Dusshera we have seen good strong demand starting now and we expect this to continue into the rest of the year and whatever little dip we had in the second quarter, we are confident that it will be made up in the remaining part of the year.

Shazia Naik: Specifically election spending, can you throw some color on whether generally we benefit on this account or like you know the trend as such?

Saurabh S. Dhanorkar: Generally before election the government tends to give up I mean give away cheap loans through cooperative banks and regional banks, so buying does go up pre-election, because pipes is a very, very fundamental need for the farmers. We have seen the demand picking up during that time.

- Shazia Naik:** Despite it being an election year with our focus of 15%, are we being conservative or it is a fair estimate?
- Saurabh S. Dhanorkar:** No, that is a fair estimate, because we will be constrained in capacity, we will be producing full out and that is why you will be able to feed the market.
- Shazia Naik:** Sir, the cost rationalization that you have spoken on in the presentation, if you could throw some light on the plan and what kind of cost savings you are looking at?
- Saurabh S. Dhanorkar:** Basically when we say cost rationalization what we are doing is our original plant in Rathnagiri is now 20 years old, it is fully depreciated, we doubled the capacity in 2006, but old plant what we are steadily doing is, we are identifying equipment which as per the old technology were more power consuming and we are replacing that with modern equipment. The Capex is not much Capex may be one Crore, two Crores per equipment, but we find that the payback period is hardly one or two years because of the modern technology and much lower power consumption, so this kind of these activities we are doing systematically. We expect about 15 to 20 Crores to be added next year due to this.
- Shazia Naik:** Okay, sir and my last question on the effective tax rate, what is your expectation?
- Saurabh S. Dhanorkar:** Full tax rate because we are not on MAT, so it is 30%.
- Moderator:** Thank you. Next question is from the line of Mr. Hemang Kotadia from Anvil Share & Stock Broking. Please go ahead.
- Hemang Kotadia:** Sir on your balance sheet side, your current liability had increased from 234 to about 368 Crores, so what was the reason behind that?
- M.B. Ratnaparkhi:** As I explained about forward premium booking, the contra entries in current liability and loans and advances, so both sides the entry is around 135 Crores, because of the forward premium booking.
- Moderator:** Thank you. Next question is from the line of Mr. Vaibhav Gupta from SKS Capital & Research. Please go ahead.
- Vaibhav Gupta:** Hi sir, most of my questions has been answered, just one last thing I wanted to ask you regarding the cross holding of the company, Finolex Cables holds a significant amount in Finolex Industries and the other way round as well. Is there any plans divesting or diluting your stake because we hold significant shares in Finolex cables.
- Saurabh S. Dhanorkar:** Yes, but as of now there is no such discussion going on, in the near future nothing like this.

Moderator: Thank you. Next question is from the line of Mr. Prateek Poddar from ICICI Prudential AMC. Please go ahead.

Prateek Poddar: In response to one of the participants you mentioned that the shift from unorganized to organized is a function of VAT, could you just throw some light on this?

Saurabh S. Dhanorkar: Earlier basically when there was no VAT, I am talking about few years earlier, the incentive to remain unorganized and to evade taxes was higher, now that when you pay taxes and you get back everything when you sell on the bill, the incentive for the marginal players to remain unorganized has gone down and with GST coming in as I said that would be further going down, because today remaining out of the tax regime is no more advantageous as in good old days.

Prateek Poddar: Sir on the housing growth front you mentioned that you are still seeing 10% kind of demand growth, what gives you this confidence, is it the dealer feedback?

Saurabh S. Dhanorkar: It is the dealer feedback one, and two when I say 10% growth it is not just because of increase in the housing per se but in the housing sector, there is a very large substitution of pipes from GI to PVC. So all the old GI pipelines when they are being replaced, they are being replaced by PVC. For two is, PVC is cheaper, easier to install and longer lasting. So there is definitely a very strong shift from GI to PVC that is driving the growth.

Prateek Poddar: When you mention the growth guidance of 50%, this is volume based right?

Saurabh S. Dhanorkar: Yes.

Prateek Poddar: It is not value based. Actually I joined in a bit late. Can you just help me to explain why as to our EBIT margins have gone down on the PVC segment?

Saurabh S. Dhanorkar: Compared to corresponding quarter, actually the corresponding quarter we had a very, very large inventory gain. So that was slightly abnormal, because that time the EDC prices has had moved up rapidly from we had booked it around \$180 dollars and then they went to almost \$300 dollars. So that was abnormally high. This year EDC prices have been steady at around \$300 dollars, so this quarter has not much of an inventory gain.

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

Maulik Patel: Sir, can you tell us how many distributors you have in agri side and on in urban side basically on the construction side?

Saurabh S. Dhanorkar: When we talked about direct distributor then on the agri side, we have close to 450 and on the building construction side now around 150 direct distributors and then when we talk about sub dealers and the network construction side are about 2500 and rural side is 12,500.

Maulik Patel: Sir, other is on this inventory side movement, is it normal that whenever the prices are moving you will have a lot of inventory gain, I am talking about your raw material cost and when the prices are moving down, probably you will have some inventory loss, is that a correct trend?

Saurabh S. Dhanorkar: No, not really because the inventory gain last year on the raw material side basically was on the EDC side and EDC has nothing do with India, because it is all imported and this is a globally traded commodity, so it has nothing do with the Indian demand. EDC has its own cycle which is based on ethylene and chlorine and caustic soda, because when you produce EDC, you basically treat ethylene with chlorine and chlorine also, chlorine is a coproduct of caustic soda, so there are completely other set of factors playing into that. So, there is no direct correlation with our prices.

Maulik Patel: I think other one is on not on immediately, but on long term basis, our policy will be that will be fully integrated in terms of PVC sourcing.

Saurabh S. Dhanorkar: Correct.

Maulik Patel: That will be policy right?

Moderator: Thank you. Sir that was the last question from the participants. Would you like to add your closing comments?

Saurabh S. Dhanorkar: Thank you very much, thank you everyone for your detailed questions and comments. We are really encouraged with your interest in our company and we have promised some of you that we will revert back with details or comments. We will do that by end of tomorrow and if you have any question even later on we are always available on e-mail, so thank you very much.

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