



“Finolex Industries Limited
Q2 FY2021 Earnings Conference Call”

October 27, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Finolex Industries Limited Q2 FY2021 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. Thank you, and over to you, Sir!

Ritesh Shah: Thanks, Janice. Welcome on to the call. We have with us, Mr. Sanjay Math, Managing Director of Finolex Industries; and Mr. Anil Whabi, Director, Finance and CFO of Finolex Industries. We will have brief remarks from the management and post that we will have question and answer session. Over to you, Whabi Sir for the initial remarks! Thank you so much.

Sanjay S. Math: Thank you Ritesh. Good morning, all ladies and gentlemen. I heartily welcome you all on behalf of Finolex Industries Limited to this Investor Conference Call.

Hope you are all safe and healthy and we thank you for your continued interest in Finolex Industries. We are happy to talk with you on our second quarter results.

Going back to the present situation, the current quarter started on the continuation of Corona pandemic as you know from the last quarter. During this quarter, on one side, there were cases increasing and on the other side unlocking on a phased manner was also being implemented. The company has adopted proper COVID measures as per the government guidelines of safe distancing, use of mask, sanitization, disinfection of workplaces, vehicles, common use areas and ensuring safety for all those people who were there inside the factory and other office premises.

During the quarter, all our production sites were functioning fully and there were no supply constraints anymore unlike what we saw in the first quarter. Demand site adjusted itself to the monsoon level on agri pipe sector and on the real estate sector we saw a major recovery over the last quarter.

The current quarter is a testimony of how our operations are resilient. I will give you some of the performance indicators for the Q2 of financial year 2021.

On volume side, Resin pipes increased by 15% year-on-year whereas as Pipes and Fittings declined by 9% year-on-year. On the topline overall revenue almost flat 1.6%, not very significant and it is at 585 Crores whereas on the bottomline we have very significant improvement. I will give you the numbers. EBITDA rose by 76.5% to 145 Crores from 82



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Crores. EBIT increased by more than 100%, 100.4% to 125 Crores from 62 Crores. Profit before tax rose by 96.9% to 157 Crores from 80 Crores and profit after tax modestly because of the tax in this last year it rose 16.6% to 119.72 Crores from 102 Crores. So these are the numbers. The bottomline is very significantly, topline maintained, volumes also almost maintained over the period.

I would now like to leave this floor open for questions and we will be happy to answer your queries. I am accompanied by my CFO, Mr. Anil Whabi and maybe there is a team from finance along with him, who will answer you on the questions of numbers and all that and on the business question, I will take care of that. So, over to Ritesh and the conference!

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Bhargav Buddhadev from Kotak AMC. Please go ahead.

Bhargav Buddhadev: Good morning gentlemen. Sir, in the first quarter we had given a guidance that the full year we may be looking at flattish volume, as compared to FY2020. So, now that we are only two quarters past, what would be the new guidance? Are you still holding on to that guidance? How should we look at that?

Sanjay S. Math: Because of pandemic in the first quarter as we saw that there was a good demand for agricultural pipes and fittings whereas real estate was yet to take off. So, there was a drop in Q1. Anyway we lost April and part of May in the last quarter. This quarter we have got demand adjusting itself to its monsoon level. Now this year monsoon also is very good, and it is widespread all across India. So, there is expectation that the crop will be good for the Kharif season. At the same time, monsoon also got a little bit delayed and the withdrawal also got delayed, so there is good moisture for the Rabi crop also. So, there will be an expectation that the Rabi crop also will be good. So, this year agriculture will drive the economic recovery from the rural front and that is how we see that the agri pipe sector should do better than even last year and we hope that just after Diwali the market should start picking on agri piping. Whereas real estate we said that there was still a recovery bound to happen, but we saw traction last quarter also. This quarter it was much better than last quarter and it has picked up. So, we are quite encouraged to say that there will be a good recovery on the real estate piping sector also. Overall, going ahead for the whole year, I would say, agri will definitely be more than last year and real estate maintaining, so possibly we will bridge up the gap of what we lost in that first two months and we will be flattish on the overall eight year volumes. This is what we expect.

Bhargav Buddhadev: Secondly Sir, given that our share of agri is very high as compared to other players, how should we look at this increase in PVC prices, which has happened, because essentially the



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prices have rallied significantly and even there would be sort of expecting a certain fall given that there are supply side shortages which are driving this, so is that the farmers may sort of wait for the prices to cool off and then maybe in April, May, look at buying at much lower prices as compared to what prices are and hence we might see a decline in the agri pipe business in the next six months.

Sanjay S. Math: I think this is too speculative to say whether the pricing elasticity will be seen or the demand on the agri pipes. Normally it is seen that the farmers are doing it as per their requirements of how they see, their agricultural produce and how they have the money to invest for such an infrastructure of piping. So, we will not like to answer on this elasticity of demand on pipe pricing. We hope that definitely the demand will maintain even despite the increase in prices. At present, it is not seen that there is really a fall in demand compared to last year particularly for the monsoon demand. So, we hope that it will continue like this and the good crop should definitely maintain the volumes are what is our feeling.

Bhargav Buddhadev: Sir, last question from my side is how is the closing stock inventory in terms of tonnage that you are carrying? Is that all the tonnages are deploying on a YoY basis on a closing basis?

Anil V. Whabi: Closing inventory, now initially in Q1 we have reported huge inventory, but now it is at normal level. So, in all the plants we are carrying now a normal inventory.

Bhargav Buddhadev: So, on a YoY basis how would it be as on September 30, 2020, on a tonnage basis?

Anil V. Whabi: It was pretty close to what it was last year.

Bhargav Buddhadev: So, as a company we are also not sort of being cautious and we are also expecting demand momentum to continue otherwise we would have been sitting on a low inventory?

Anil V. Whabi: No. We are not curtailing on our production on that account. We expect a normal pickup in the coming quarters.

Bhargav Buddhadev: Thank you very much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Chirag from HDFC Mutual Fund. Please go ahead.

Chirag: Good morning Sir. Can you tell us the PVC, EDC, ethylene and VCM prices for the second quarter and first quarter of this year, please?

Sanjay S. Math: Second quarter PVC price was \$920, EDC was \$267, ethylene \$730 and VCM \$712. First quarter PVC was \$740, EDC was \$193, ethylene \$537, and VCM \$516.



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- Chirag:** Second quarter of the previous year?
- Sanjay S. Math:** PVC was \$900, EDC was \$317, ethylene \$780 and VCM \$735.
- Chirag:** First quarter of last year?
- Sanjay S. Math:** PVC \$883, EDC \$393, ethylene \$858 and VCM \$718.
- Chirag:** My last question is what was the inventory gain this quarter?
- Sanjay S. Math:** Because of the sharp price in the PVC prices, obviously there was inventory gain, but it is difficult to quantify that number.
- Chirag:** Is there a rough estimate or a ballpark which is there?
- Sanjay S. Math:** Sorry.
- Chirag:** Just a rough estimate Sir in terms of how much?
- Sanjay S. Math:** No, I do not have that estimate.
- Chirag:** Thank you very much Sir.
- 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. My question is on pipe EBIT margins. Sir, we saw a sequential rise in realizations with little benefit and we also saw a good fittings in this quarter sequentially, but pipe EBIT per kg if we see the number is coming off, it is lower in Q2 compared to Q1?
- Anil V Whabi:** Traditionally, if you see Q2 because of lower volumes, so you will always find Q2 being lower, but if you compare year-on-year basis, you will see the improvement.
- Ravi Mehta:** Last year was actually very low, so actually Q4 we did a margin of close to Rs.10 and then it came off to Rs.9.7 with better fitting mix and better realization, it did sustain that?
- Anil V Whabi:** More than the mix, the volumes that plays a role of a lower EBITDA margin in Q2.
- Ravi Mehta:** On an annual basis did we see this picking up because of strong agri momentum what we are seeing. What kind of an EBIT do we expect, we can sustain?



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- Anil V Whabi:** You are talking about pipe segment?
- Ravi Mehta:** Pipe segment, of course.
- Anil V Whabi:** We hope that the similar trend will be maintained because in pipes we would not have such volatility that we have in PVC Resin segment.
- Ravi Mehta:** 10% EBIT is what you target?
- Anil V Whabi:** In terms of percentages it is difficult to say but if you see in the past it has been maintained at around Rs.8 plus slowly improving, so that should continue.
- Ravi Mehta:** So improvement to Rs.9 should be something that one should look at it, but we have seen at Rs.8 for a little time and since the country of improving pipe segment past seems to be visible in the last few quarters...
- Moderator:** Sir, I am so sorry to interrupt, your audio is not very audible. May I please request you to rejoin from a different number and you can come back in the question queue. Thank you so much. The next question is from the line of Vishal Baria from Aviva Insurance. Please go ahead.
- Vishal Baria:** Thank for the opportunity. Sir, my question is on the competitive scenario specifically from the smaller players and on market share. So could you make us understand a bit more on this front?
- Sanjay S. Math:** What are you talking about market share?
- Vishal Baria:** Yes. Would we have seen any market share gains in the second quarter and this would have been led by what and any colour on the competitive scenario?
- Sanjay S. Math:** We normally do not have such an elaborate data about unorganized players and organized players shifting. Whether the market shifts from unorganized to organized data is not very, very handy to most of the people. We cannot comment on this but definitely there is expected that during the pandemic, many people in the smaller sector or unorganized sector would not get their operations started so well, because of either on labour or on shortage of the credit facility and that is why possibly there is a shifting that has happened. We cannot quantify it how much it must have happened.
- Vishal Baria:** Would you have seen any of the smaller players go out of business or would have shut shop temporary something of this sort?



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- Sanjay S. Math:** As I told you that such type of things, the number of players are plenty, maybe 1500, so there are 100 people come every year and 100 people go out of the business every year. Such as data is not very well compiled and not available, possibly this is more of a speculation that we can say.
- Anil V Whabi:** Thank you very much. I am done.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Thanks for the opportunity. Sir, just a couple of questions; could I have the EPVC revenues and volumes for the quarter?
- Sanjay S. Math:** CPVC, do we have a number Whabi on EPVC separately.
- Anil V Whabi:** I did not get the question. It is about the EPVC sale?
- Abhishek Ghosh:** EPVC revenues and the volumes, what you usually share during the quarter?
- Anil V Whabi:** CPVC if we compare on YoY basis, the volume was 2056 as compared to 2284 tons last year so there is a drop of 10%.
- Abhishek Ghosh:** Sir, what is the price hikes that we have seen in October in PVC?
- Sanjay S. Math:** It is like this that the prices of PVC have gone up. At one point of time, during the pandemic it went down to Rs.62. Today it is Rs.95. So, there is a total rise of Rs.32 in PVC. During the quarter it was somewhere around Rs.24 up to September end, now even September or beyond September in October itself another Rs.10 to Rs.12 have gone up. Now corresponding to PVC prices, the pipes prices have also been corrected. So you can see that percentage price hike.
- Abhishek Ghosh:** Sir, in your presentation if I go back a couple of quarters back, 1Q FY2021 your retail touch points that were mentioned was about 18000-odd, in this presentation it is about 21000 so have you consciously added on to retail touch points or is it a number which is reflecting something else?
- Sanjay S. Math:** No. It is addition.
- Abhishek Ghosh:** So, you have added up?
- Sanjay S. Math:** We are increasing our reach to the customers through more retailers.



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- Abhishek Ghosh:** Any particular segment that we are kind of looking at?
- Sanjay S. Math:** As we said last year also that we are looking at non-agri aggressively. So the one sector we are looking at non-agri sector or the real estate sector so there we are adding some more. In general East and North India we are still not the strong players. We are also looking at those areas and geographies. So, one is the (inaudible) 21.01 vertical and the other one is a geography.
- Abhishek Ghosh:** So, this 3000 kind of a retail touch points is something that you have added in the first half. Is that a fair assumption to make?
- Sanjay S. Math:** Yes, in the last six months, you can say.
- Abhishek Ghosh:** Where can we look at this number one year down the line, I am saying what can it be? Can it be like 24000, 25000 is that the roadmap?
- Sanjay S. Math:** I think we are not specific on how much we should increase. We are more specific on where and to what extent we can penetrate a market and where we are lacking in the market. So, the number is not that specific.
- Abhishek Ghosh:** Sir, just a couple of things, in terms of the CPVC and the overall Lubrizol and other things is there a change in strategy in terms of the credit period that you are offering to the channel and other things. Is there a change there to be more aggressive, if you can just share the thought process there?
- Sanjay S. Math:** I think we discontinued our relationship with Lubrizol from September 1, and we have introduced our own Finolex branded products since then. We have consciously maintained our price line. We believe that our brand is equally good and we will be able to maintain the volumes or may be over a period of time, we will also increase our volumes as the market grows. So, there is a clear understanding that we believe in our brand and we believe in our quality equally well. So, we are placing ourselves in that strategy.
- Abhishek Ghosh:** Sir, just one last question; are you also looking at the opportunity of water tank?
- Sanjay S. Math:** Water tank, at present we have looked at, but not necessarily looking at water tank as an addition to this.
- Abhishek Ghosh:** Thank you so much for answering my questions. All the best.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.



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Maulik Patel: Thanks for the opportunity Sir. One question I have; can you give some outlook on the international PVC price and the way it has gone up? Do you expect that some kind of a pull back and the sharp increase which is again more driven by the supply disruption?

Sanjay S. Math: See, it is a wider question why PVC prices have gone up, it is again market forces, supply and demand. Presently, it is not the demand that is limiting in India, it is the supply side. Imports have not been maintaining as per the demand, and normal imports if you take that the PVC demand is something like 3 million to 3.5 million tons and we were between that because of COVID, it could be about 3 million tons and domestic production being only 1.4 million tons or 1.5 million tons so, the imports are supposed to be around 1.6 million tons. Now imports are not coming to that level. So, the imports are about 50000 to 60000 tons instead of about 1.3 lakh tons or 1.5 lakh tons. So that is what happened and then the demand being high the prices have gone up. There are also lot of people in the international players, particularly North America, in West Lake or Formosa or even Raščane and some of the players in the east also have also taken shutdown. So Formosa have closed down two plants, West Lake has also closed about one or two plants, Raščane has also closed down. Europe is intra region trade, so there is nothing that is moving out of them. Northeast Asia again is recovering faster, so there is an intra region trade, nothing more to come here. That is where the shortages are seen. That is why the prices have hardened. Whether this will remain in the future for long it depends upon how the pandemic unfolds and how the inter region trade and global trade is restored back.

Maulik Patel: But Sir for the pipe business such kind of volatility does impact the volume right? Such a high price increase will impact the volume?

Sanjay S. Math: We cannot say that at present. This question is how the plastic processors take up that the resin prices have gone up, so how pipes and other segments of PVC how they react to this. Presently it does not seem to be that they have reacted very sharply even though there is a price rise quite significant, but look at the price rise also, let us not talk about prices that is coming from \$620. The normal pricing of PVC is about \$900 to \$950. This is sometimes 10% higher and 10% lower. So, it fluctuates between \$850 and \$1000. This is where the normal PVC prices are fluctuating and if you take long-term average this is where it will be. Now pandemic created the loss of trade and that is why the prices scaled down to \$620. Let us not talk about \$620 as a price because there was no trade at all. So, this was a fictitious price and then it recovered back to its normal level of \$900. Today, what we talk about rise in prices is from \$900 to \$1100. So, it is something like 20% rise that we can see, but 20% rise is not very significant that one should really be thinking that whether the demand will contract because of increase in prices. This will definitely correct somewhere or the other as the supply improves and possibly it will again maintain its long-term average, somewhere



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around \$950 to \$1000. This is what is expected maybe by Q3 end or maybe by January, February that is Q4.

Maulik Patel: Sir, I just one more thing. Whabi Sir, can you give this CPVC revenue number? You have given the volume number for this quarter?

Anil V Whabi: CPVC the revenue was 64 Crores during the quarter.

Maulik Patel: Sir, in this quarter, the overall pipe volume decline by 9% but the fitting volume had a single digit growth right?

Sanjay S. Math: Yes.

Maulik Patel: So, does that mean the agri proportion was lower and the non-agri proportion was higher?

Sanjay S. Math: Yes, you are right.

Maulik Patel: What could be that number if we try to quantify that numbers in terms of overall?

Anil V Whabi: Overall drop was 9% so agri was little more than 9% and non-agri there was no shortfall. In fact, there was marginal growth.

Maulik Patel: Sir, if I see last three quarters our pipe margins are consistently increasing higher despite even if we look at in the first half the pipe volume is down by 31% or so, the margins are trending higher, there could be a combination of factors as in cost cutting or the better pricing or the mix is changing in more favor of this and historically you have talked about that the margin we want to see higher from that whatever 8.5% kind of an EBIT margin to 10% or 11%. Are we putting in a sustainable more efforts to increase this number and how?

Sanjay S. Math: If you see the numbers for the past few quarters, obviously this is evident. So, that is what we are trying.

Maulik Patel: But is this sustainable, because you are in this couple of quarters, you see that agri volume was significantly lower which is again a low margin business, you have cut down on the advertisement and the other related incentive or the dealers incentive and all has not been there, so probably will this reverse this back?

Sanjay S. Math: See, you know that agri is almost 70% so obviously the better realization has played a role in agri also. So, that is why overall there is some improvement. So, it has happened in all ranges of pipes.



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Maulik Patel: Thank you.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Thank you for the opportunity. Congratulations on a great set of numbers. Sir, my first question is again an extension of the earlier question that PVC resin volumes have grown very well, while the volumes of pipes have degrown. So, any particular dynamics which is playing out in both of these segments which is divergent?

Anil V Whabi: Actually no. The pipe volumes we know in Q2 they do decline. Year-on-year we see a drop because the demand was not so good, but in case of PVC resin because of supply constraints the demand was very good. So, there was a demand pull. That is the only reason.

Sanjay S. Math: One more thing I will tell last year the monsoon was delayed so the first month of the Q2, July I think there was a good pipe sales up to July 15 and this year the monsoon started in June itself and that is why this quarter you will see that the demand of agri pipe has gone down, but that is the demand normally in the monsoon season. So that comparison because of monsoon is a little bit shadowing the last year we had a better volume.

Sonali Salgaonkar: Sir my second question is on a broader vision of the company. The last quarter we had mentioned that we are aiming to improve the non-agri mix of the plumbing mix to 40% over the next three years. Sir, any particular steps we are taking that direction? What is our vision in terms of what we would like to change to achieve this 40%?

Sanjay S. Math: Madam, last time itself we told that what we are doing particularly we are focusing on non-agri segment verticals and individual verticals of SWR and indoor piping and outdoor piping and also looking at exclusive distribution channel for some of the city areas. Giving the numbers now in Q1 we had non-agri to agri ratio on the volume side was 15% whereas in the Q2 we had 38% and 62%. So, in the Q2 definitely the agri pipes are less, but at the same time we have maintained non-agri. So there is a growth that we can see in non-agri segment and in the volume wise, we are 38% of non-agri in Q2 whereas in the value wise we are 46% of on agri. So, there is some kind of a change that we see between the compositions of our piping segments.

Sonali Salgaonkar: Sir, my last question is on the sustainability of the margins. We understand that we have PVC-EDC spread is a key monetizable but from the current trend that we mentioned that even during October we are continuing to see Rs.10 to Rs.12 per kg increase in the domestic PVC prices. Do you foresee this kind of resin margins to sustain at the peak level from the next few quarters at least?



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Sanjay S. Math: I think this is difficult to say. As I told you that there is presently a supply constraint on PVC resin, so the prices have hardened as the supply improves possibly these margins will not remain. The long-term averages of EDC to PVC delta about Rs.550 to Rs.600 and this will definitely be maintained. At times, the supply demand positions definitely play a role and it goes to Rs.500 well it can go to even Rs.650 to Rs.700. Presently, it is higher, but it will finally reach to long-term average, Rs.550 to Rs.600.

Anil V Whabi: One more thing, Sonali. As we mentioned, we have to look at the other side also, the EDC prices also because of the supply constraint have hardened from about \$300 they have crossed \$430 and EDC is difficult to come by in the next few months because chlor alkali industry is also not producing caustic soda because of poor market conditions.

Sonali Salgaonkar: Thank you Sir. This is helpful.

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

Kashyap Pujara: Thank you for taking my question. Congrats for a decent set of numbers, Whabi Ji and you guys. I have two questions; first is regarding this PVC pricing that you mentioned that this is normalized to long-term averages and currently it is \$1100. Can you just clarify China has a lot of capacities, which are ideal in PVC which are mainly made through the limestone route versus the world is kind of using the ethylene route and typically, if I remember they get viable once pricing moves above \$1100. So, are we seeing any supplies coming in from China at this point in time? What is the kind of status on some of those stranded PVC plants in China commencing operations?

Sanjay S. Math: I think we discussed last time also that petro ethylene versus the carbide route and carbide route is not environmentally friendly and China has stopped that particularly over the last to three years and that is how the short supply coming from carbide route. We have still not started that route in an aggressive manner and we are also depending on more on the ethylene route and that is why as you are thinking that definitely carbide route can replace the shortfall around the ethylene route, which is not happening yet.

Kashyap Pujara: Which means the prices still have upward momentum as long as the force majeure shutdowns continue?

Sanjay S. Math: That is one part, but secondly as Mr. Whabi has also said that people are looking and there is a different dynamics apart from that. One is the caustic chlorine industry. Caustic is very, very soft today and there is no demand.

Kashyap Pujara: We are only spending on aluminium at this point.



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Sanjay S. Math:

Caustic is running at \$250. To make EDC we require chlorine and ethylene and then if you have to have chlorine you have to make caustic and there is no demand for caustic. Nobody wants to store caustic like that. So, that is how caustic chlorine in the sea is running at lower operating rates and that is why EDC is short and EDC is short and then people are having the raw materials for VCM and PVC. That is one sector. Secondly ethylene is also remaining soft because there is a glut in the market for polyethylene and most of the crackers are configured for polyethylene's based on ethylene rather than on EDC chlorine basis. So, once the EE is softer there is no incentive for people to have higher operating rates on ethylene also and that is why people are taking shutdown. They prefer to take shutdowns, let the pandemic be over and then let polyethylene prices recover and then they start cracking more aggressively and that is why you will see Formosa, West Lake or even in Europe and Raščane and other people are going on shutdown, long-term shutdown, maybe two months shutdown, which is not a normal maintenance shutdown. It is more like a business shutdown and that is why you will find both raw materials for EDC particularly chlorine as well as the ethylene, which are not very lucrative and EDC becoming short, there is always shortfall on PVC. I think this is correcting itself. The shutdowns shall be over by November end or mid of November and we will see some more actions coming on PVC side.

Kashyap Pujara:

That is helpful. Finally on the question regarding CPVC while we have not renewed arrangement with Lubrizol which made a lot of sense, because we are selling on our brand, but have we kind of maintained the pricing in the market for our CPVC products or have we kind of reduced the prices after the Lubrizol tie up has been ended?

Anil V Whabi:

We have continued the prices. We have not reduced the prices after we introduced our own brand in the market.

Kashyap Pujara:

My final question is that how much margin expansion we can look forward to because today you are buying a higher cost polymer and now you might be buying a resin and doing your own compounding, so a) you are buying it cheaper, b) you are adding one leg here. So, definitely there should be margin expansion. So can you just say in percentage in terms of basis points if you do not want to give an absolute?

Anil V Whabi:

There is definitely an improvement, but since that volume is so small, it does not affect significantly the total margins.

Kashyap Pujara:

All the best Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.



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Sneha Talreja: Congratulations for a very good set of numbers. Most of the questions are answered, just one question regarding CPVC, which you have already answered, but just an extension to it is. There was an anticipation in the market that you would be taking a price drop after Lubrizol deal. Since you have not done that what is the feedback you are receiving and do you plan to do this now after may be looking at the response or what is the aim in that case that you will be looking at the volume growth?

Anil V. Whabi: Right now there is volume, there is pickups, so we do not intent to act presently, but in future if we do feel, we may correct the prices to an extent. So, that would be a business decision, but strategically there is no reason that prices need to be corrected.

Sneha Talreja: Why I am asking this is because I just wanted to correlate this with your vision of growing in terms of non-agri pipe and with this Lubrizol deal coming off and now your focus is increasing furthermore with the distribution expansion, I just wanted to know what is it that you are looking at with respect to only CPVC let us say in terms of volume growth?

Anil V. Whabi: We still look forward to the volume growth. We have capacity of about 20000 tons, and we are presently doing about 10000 tons a year. So, we definitely want to grow in that segment, and we will ensure that in coming years, the volumes do grow.

Sneha Talreja: That was helpful. Sir, can I actually get the revenues for last year same quarter. You said 64 Crores for this year. What was it last year same quarter?

Anil V. Whabi: 68 Crores.

Sneha Talreja: Last year volumes you said is 2084?

Anil V. Whabi: Last year volume was 2284.

Sneha Talreja: That is it from my end. Thank you so much Sir.

Moderator: Thank you Sir. The next question is from the line of Chirag from HDFC Mutual Fund. Please go ahead.

Chirag: A quick question on the other income which was higher this quarter year-on-year. Sir, if you could just help us understand why that was?

Anil V. Whabi: This is actually a couple of reasons. One is of course with our cash surplus there is an earning for that. Then apart from that we did earn a little higher dividend from Finolex Cables and third was there was a foreign exchange gain during the quarter which sits in the other income.



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- Chirag:** How much was that?
- Anil V. Whabi:** Foreign exchange gain was about 7 Crores.
- Chirag:** Previous year what would be the comparable number?
- Anil V. Whabi:** Previous year there was no gain. In fact there was some loss, which was reported as costs.
- Chirag:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Congratulations for good set of numbers. My question is regarding this scrapping of Lubrizol deal. Can you comment further why we decided to terminate that relationship and what gives us confidence that our product will be well received in the market?
- Sanjay S. Math:** I think it was a business decision more than of any relationship. We have excellent relationship with Lubrizol even now. The business decision was that we can improve margins because of the raw materials if we use our own compounding, we will be saving some costs there and that is how we saw that our branded products are equally accepted and with the lower cost of production, we will have improved margins, this was the major decision.
- Vipul Shah:** Sir, I just wanted to check, you said volume wise, non-agri was 38% and value wise it was 46% in this quarter. Have I heard you correct or there is some mistake?
- Anil V. Whabi:** Yes I think you are right, but all in the Q2. Q2 normally the volume of agri is much smaller. So, it is always so.
- Vipul Shah:** All Q2 agri is less, right?
- Anil V. Whabi:** Yes.
- Vipul Shah:** Thank you Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.



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- Ritesh Shah:** Thanks for the opportunity. Sir, my first question is in the presentation we do make a mention of cost saving arrears. Can you highlight what these are and in what part of this is sustainable going forward?
- Anil V. Whabi:** Ritesh your voice is not clear, but as I understand see we told last time also the cost reduction is on account of reduction in some discretionary costs. So, obviously because of those conditions we decided to curtail some costs and that is what is being seen in the numbers.
- Ritesh Shah:** Sir, is it possible to quantify how much was that?
- Anil V. Whabi:** There are a number of items. So, there is a reduction in travelling cost, there is a reduction in communication costs, there is a reduction in marketing and marcomm cost. Obviously there is some reduction on account of lower volume in PVC pipe segment also.
- Sanjay S. Math:** See, the PVC pipe segment the production volume was lower so to that extent the costs are also lower.
- Ritesh Shah:** Sir, secondly you did indicate about CPVC we are maintaining the pricing, but would it be possible for you to quantify how much is the differential on CPVC pricing versus our CFS before and after...?
- Anil V. Whabi:** We are in the market. So, prices always remain close to each other. We cannot have a large differential market.
- Ritesh Shah:** Sir, where I am coming from is given our costs would have come off we have an option to reduce and lower our prices a bit to actually chase larger volumes in the market place. I think that was a broad expectation being Finolex is a very strong brand so is it that way once you look at it or we are closing?
- Anil V. Whabi:** That is what I mentioned earlier. This will be a business decision. We would keep on looking at volumes that we achieve and the possibility of gaining higher volumes. So, we may take but right now we are maintaining the price.
- Ritesh Shah:** Sir last question capex plan for the full year? Any changes to that?
- Anil V. Whabi:** No. We said we had earlier budgeted about 100 Crores, but then as the year progressed we try to defer some of the decisions. So, capex will not be large.
- Ritesh Shah:** Fair enough. Thank you so much for answering.



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- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Sir, just continuing on that question of capex, we almost have a surplus in excess of 400 Crores as we speak and also there is a fair amount of cash generation that we are doing. So, the whole addition of retail touch points into North and East as Mr. Sanjay spoke about will that also be at some point in time be looked at with capacity addition. How should one look at it?
- Sanjay S. Math:** Obviously as we exhaust our capacities here in the existing plants, we will have to look at some capacity additions in future.
- Abhishek Ghosh:** Is there a timeline to that? In about 24 months, 36 months, is there a thought process there?
- Sanjay S. Math:** There is a thought process. So obviously in 24 to 36 months we will have to add capacities.
- Abhishek Ghosh:** Sir, in terms of if you can just help us understand how is Plasson doing for us?
- Anil V. Whabi:** Plasson if you see it is roughly about 400 Crores turnover company. So it continues to do on the same lines. So there is no major change.
- Abhishek Ghosh:** What about the margins and other things because couple of players have vacated the market? Sir, any improvement in margins or anything over there?
- Anil V. Whabi:** Slight improvement but nothing significant.
- Abhishek Ghosh:** Sir, just one last thing, if you can also help us understand that how has CPVC pricing overall not because the Lubrizol, but at the market place, the way PVC prices have moved up how has been the movement in CPVC pricing?
- Anil V. Whabi:** Normally both on input and finished good side the CPVC prices do not move as much as UPVC prices. Mainly for CPVC resin sourcing there are annual contracts. So, as the dollar prices are fixed the CPVC prices for finished goods will only change because of rupee dollar movement if there is significant otherwise relatively their prices are stable.
- Abhishek Ghosh:** You have not seen much of an increase in the CPVC prices is what you are alluding to?
- Anil V. Whabi:** During this period there has been no increase.
- Abhishek Ghosh:** Thank you so much. Wish you all the best.



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- Moderator:** Thank you. The next question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.
- Akshay Satija:** Thank you for the opportunity. Sir, my understanding is that we have a CPVC capacity of 20000, column pipes capacity of 8000 and fittings capacity of 30000 and the rest is agri. Is that understanding right?
- Sanjay S. Math:** All the capacities in the pipe plants are generally fungible. For CPVC only the screw and barrel need to be changed and on that capacity the other pipes also can be produced.
- Akshay Satija:** Could you give us some sense in terms of are you saying that agri and non-agri can be manufactured in the same plant and there is not a significant capacity in it?
- Anil V. Whabi:** Yes.
- Akshay Satija:** Sir my next question was related to the fitting versus pipe margins. Could you help us with the difference between realizations and margins? Not the exact numbers, but just in terms of percentage, what is the difference?
- Anil V. Whabi:** Overall margins if you see that we get 8% to 9% now in agri the fittings volume are much lower and margins in fittings is better than the pipes and non-agri pipes also have a better margin. So, while 70% of the business that we do would have margin of little lower than 8% while non-agri would have a little higher and within non-agri also CPVC has much higher margin compared to other pipes.
- Akshay Satija:** What will be the fittings margins if you could just clarify?
- Anil V. Whabi:** It is higher. It will be somewhere in double-digit numbers, low double-digit numbers because the investment also are higher in the fittings business.
- Akshay Satija:** We actually outsource our entire fittings business? We have specific companies that are setup the business for that?
- Anil V. Whabi:** Exclusive for us, yes.
- Akshay Satija:** Any plans in terms of setting up on our own?
- Anil V. Whabi:** There are plans but still on the drawing board.



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- Akshay Satija:** Sir, last question. If you could just give me what is the CPVC resin price and where do we actually import it from? So, up till now we were doing with Lubrizol. So, what is the plan ahead?
- Sanjay S. Math:** There are many suppliers, not only one. We have imported component as well as domestic component.
- Akshay Satija:** What could be the CPVC resin price, if you could just per ton?
- Sanjay S. Math:** I think it depends upon the supplier, but somewhere around Rs.150, resin price.
- Akshay Satija:** Rs.150 is that right?
- Sanjay S. Math:** Yes. Rs.150 to Rs.155.
- Akshay Satija:** This is Rupees or Dollars?
- Sanjay S. Math:** I am talking about Rupees.
- Akshay Satija:** Per kg. Got it Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Karan Bhatelia from AMSEC. Please go ahead.
- Karan Bhatelia:** My questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Shanti Patel from SK Investment. Please go ahead.
- Shanti Patel:** Sir, I just wanted to know where our company stands in the industry in terms of profit and the turnover? Who are our main competitors, if you can name three or four companies?
- Sanjay S. Math:** I think there are six large pipe fitting companies. Finolex is one, Supreme is second, Jain Irrigation is third, then there is Astral, there is Ashirvad, and there is Prince. These are the six large organized sector pipes and fitting companies.
- Shanti Patel:** Where we stand in terms of profit and in the industry?
- Sanjay S. Math:** I think everyone has his own unique position. We would not see that. There are some players who are good in non-agri sector. There are some players who are good in agri sector. So comparing each other is not a right way of doing it because the composition of



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agri to non-agri varies with each player. Their sizes are different, their volumes are different, their investment is different.

Shanti Patel: Yes. Because it is not comparable, because it is not identical proportion of non-agri and agri, I agree. Thank you Sir.

Moderator: Thank you. The next question is from the line of Chirag from HDFC Mutual Fund. Please go ahead.

Chirag: A quick followup. You mentioned that non-agri is 46% of the revenue. I missed the percentage by volume?

Sanjay S. Math: 38%.

Chirag: What would have that been in the previous quarter FY2020?

Sanjay S. Math: I do not have the numbers for last year, but this ratio is favorable for non-agri during the monsoon because agri is down and we are strong in agri and so as the agri picks up, the ratio will fall down.

Chirag: Sir, for the full year is there a big difference in margin between agri and non-agri because as you said in agri you have less fittings and the fitting margins are higher but you obviously have a volume advantage and you are very strong on the agri side, so on a net-net level when you look at EBIT is there a significant difference in EBIT?

Sanjay S. Math: In general yes. Non-agri has better margins than the agri. One thing is there the composition of fittings to pipes is also higher in non-agri because it is indoor piping requires more number of fittings than (audio cut) 57:47. I was talking about the margins in general non-agri has better margins and they have a more composition of fittings to pipes ratio compared to agri pipes and this is the difference between the two.

Chirag: To what extent would that difference be?

Sanjay S. Math: Normally agri pipes is around 6% to 8% of fittings whereas in the non-agri pipes it could be double-digit around 14%, 15%.

Chirag: This is the fittings contribution not the margin contribution?

Sanjay S. Math: Fitting contribution is more in non-agri as I said, 14%, 15%.

Chirag: Thank you Sir.



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

Achal Lohade: Thank you for the opportunity. Apologies, if you find repeating the question. My question was a) in terms of capacity. What is the current utilization, and do we have any plans to look at Greenfield capacities in the Eastern or North part of India?

Sanjay S. Math: We will be looking at. This is a cyclic business particularly based on the agricultural piping contributing more in our business. The capacity utilization is low during the monsoon period and the capacity utilization gets limited in the non-monsoon period when the markets are good for agri. So, the overall capacity utilization remains around 75%, which will be 50% during monsoon and maybe 100% during the peak season. The capacity addition is also looked into whether we make our buy decisions. Whether that is beneficial to us, I think we make those decisions purely on business basis. Whether we make it in the geography or we subcontract it from a particular vendor. Those types of decisions will be purely business decisions.

Achal Lohade: Thanks. At this point in time, how much would we do subcontracting contribution to our pipes division?

Anil V. Whabi: In pipes division it will be about 10%, 12%.

Achal Lohade: Sir, would you be able to talk about the regional mix as in how much would South, West, North, East would be contributing to our pipes revenues?

Sanjay S. Math: I think we are very strong in South and West. South about 38%, West about 34% and rest of it is North and East.

Achal Lohade: Sir, just last question, if I may, with respect to the non-agri business for pipes specifically do we require to kind of have a separate line of distribution for the non-agri business and where are we in terms of the execution of that?

Sanjay S. Math: I think we are working on that. As I said last time also that we are working on such a thing and it is under implementation. Slowly, we are moving in that direction.

Achal Lohade: That is really helpful. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Rahul Soni from (inaudible) 01:02:26. Please go ahead.

Rahul Soni: Most of the questions have been answered. Thank you.



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Moderator: Thank you. The next question is from the line of Shreyas Bhukhanwala from Canara Robeco. Please go ahead.

Shreyas Bhukhanwala: Thank you for the opportunity. Just two questions; on the region wise, any specific regions being much better demand compared to the other regions?

Sanjay S. Math: I think even the region wise, if you see that South is definitely the highest demand, the next one is North, the third one is West and East is less. East is about 15%. South is about 35%. North is about 25% and West is about 22%, 23%. South is having both agri as well as non-agri demand. North is mostly non-agri. East is weak in both. West is good in agri. Every player has its own geography and own segment to operate on.

Shreyas Bhukhanwala: Sir, basically I was asking on the current demand as in which regions are seeing better demand?

Sanjay S. Math: We cannot say that particularly in the sense because agricultural demand is different in different sectors and presently real estate sector is presently is not doing so well. So, we cannot say at present, how the demand is shifting in the two.

Shreyas Bhukhanwala: We are looking at flattish kind of likely volume in FY2021 on pipe segment, right?

Sanjay S. Math: Last year we made about 254000 tons. We should be around 250000 tons. This is what we are looking at.

Shreyas Bhukhanwala: Any sense on October has been? I do understand it is just 25 or 27 days, just a month or so, but how it has been? Is it more or less the activity has been similar to last October?

Sanjay S. Math: Yes. Last October was not so good. So, do not compare that. October was monsoon and flooding all over, so it is not very good. Compared to September definitely October is good, this year.

Shreyas Bhukhanwala: Thanks.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from AMSEC. Please go ahead.

Karan Bhatelia: Sir, how are things shaping up in Haryana, Punjab and UP because we are seeing a lot of farmers protesting against the Farm Bill? So, how are things shaping up there?

Anil V. Whabi: Can you please repeat?



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- Karan Bhatelia:** In the last couple of days we are seeing a lot of protests from Punjab, Haryana and UP over the Farm Bill. So, how do you see that situation for us? How has the demand shaped up especially in these three states?
- Anil V. Whabi:** Those protests will not have any impact on demand for pipes.
- Karan Bhatelia:** Sir, we see farmers agitating against the Farm Bill especially in three states, UP, Punjab and Haryana, so, any impact on the piping side? How is the scenario now?
- Anil V. Whabi:** No, there will not be any impact of such protests because these are not related.
- Karan Bhatelia:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Sonthalia Venkatesh from ithought Financial. Please go ahead.
- Sonthalia Venkatesh:** Sir, there are a couple of questions. As an industry where are we heading towards in terms of products like UPVC, CPVC, HDPE, where is the industry moving in terms of products?
- Sanjay S. Math:** I think we lost you again in between?
- Sonthalia Venkatesh:** Sir where are we heading towards in terms of industry, towards which product the industry is moving? Let us say UPVC, CPVC, HDPE where are we moving?
- Sanjay S. Math:** Actually every product has its own unique selling proposition and application. CPVC is good for hot and cold water, and drinking water, UPVC is a general piping segment application coming from agricultural, irrigation product, borewell products, and some of the sanitization and drainage products. So, UPVC gets application there. In terms of HDPE has many other unique features which made them, application in oil and gas, then they have corrosion resistance, they have also got an application for large storage public utility, war piping, they are also good for gas distribution in the cities for fuel gas, and so there are definitely different applications wherein a certain polymer has a better market. So, it is not a comparable thing that whether UPVC will grow or CPVC will grow and whereas they will substitute each other. Depending on the application growth the growth of that particular resin will also grow. For example, just to give you HDPE prices today are almost comparable with CPVC prices. Have we seen that the PVC prices are hardening further, and you do not see that migration of piping to HDPE from PVC to the extent that the prices would have justified. So, it is not the pricing, it is not anything, it is the application characteristic of a particular resin which defines its market application.



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- Sonthalia Venkatesh:** My next question is in non-agri pipes, let us say in buildings, what is the total amount of money that is spent on piping, plastic piping per building? Do you have any ballpark numbers?
- Sanjay S. Math:** I cannot get your question because the voice is breaking, but Whabi Ji could you hear her?
- Anil V. Whabi:** No I could not hear the full question.
- Sonthalia Venkatesh:** Sir, in non-agri pipes, in buildings what is the amount of pipes that is used per building?
- Anil V. Whabi:** Of course this will depend on the size of the building. So, it does vary, but in any way the pipes value is treated as a cycle for any building.
- Sonthalia Venkatesh:** Sir, my next question is I know that fittings have better margins as compared to pipes, but what is the difference in the margins for fittings and pipes in numbers?
- Anil V. Whabi:** I had mentioned this earlier. Fittings is close to double-digit number while pipes are about 8%.
- Sonthalia Venkatesh:** Thank you Sir. That is it from me.
- Moderator:** Thank you. The next question is from the line of Anand Jain an individual investor. Please go ahead.
- Anand Jain:** Thank you for the opportunity. I just wanted to understand the opportunity that exists for this entire government initiative of Jal Given Abhiyan for the organised players? The central government initiative for tapped water for every house?
- Sanjay S. Math:** Nal Se Jal is a government programme and it will have different, different sectors to operate. First being is the public utility piping which is coming from a long distance to the cities. Then city distribution piping and then it will be the last end the pipe going into the houses. So, we have marked it for large size piping will be captured by may be HDPE, may be HDI, or maybe OP Resin. The market for the last end piping will be again UPVC. So, if there are different, different applications for different, different purposes.
- Anand Jain:** So, we have an opportunity for us at some point in time in this?
- Sanjay S. Math:** We also look at these opportunities. There are programmes which are driven by the state government actually and then there are tenders and biddings going on. We supply to our channels.



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- Anand Jain:** My second question is we are seeing that one of our competitors on the agri side, Jain Irrigation is in some kind of financial problems. So do you see that we will gain the market share against them in due course of time? Can you just highlight us on that on the agri side? How do you see this evolving side?
- Sanjay S. Math:** We cannot comment on somebody else's market share because they are still operating and how much they have lost and what is really happening, we cannot say. We look at our own sort of in terms of total market and what is our market share.
- Anand Jain:** Has it changed from the agri side because Jain used to be a dominant player all across India, Jain Irrigation, so do you see our market share rising on the agri side significantly?
- Sanjay S. Math:** Jain was at the last end also in micro irrigation. So, they were more on sprinklers and micro irrigation projects, which were contributing more on their revenues. On the irrigation piping, yes, their particular part of irrigation piping versus micro irrigation we do not have that number but at the same time we are not in irrigation products ourselves. So, we are only in micro irrigation products, we are not here on the upstream irrigation products.
- Anand Jain:** But we have an associate/subsidiary which is into micro irrigation?
- Sanjay S. Math:** Finolex Plasson is our micro irrigation arm. They are doing that.
- Anand Jain:** So, they are taking some market share is what you could assume?
- Sanjay S. Math:** We hope so that if Jain Irrigation has completely stopped then only, but I do not think they have stopped completely.
- Anand Jain:** Sir, last question from my side, is what is the capacity utilization right now? What was it last year and what was in the last quarter, more from the pipes and resin side?
- Sanjay S. Math:** Capacity installed capacity is almost same. Capacity utilization levels as I said earlier also about 75% overall year-on-year.
- Anil V. Whabi:** But in Q2 it normally falls to less than 50% and so it is for this year also.
- Anand Jain:** Sir, this is both for resin or for just types? I am asking also?
- Sanjay S. Math:** Resin is 100%. Resin is never operated around this demand side, cyclic demand, whether in its full capacity because beyond piping application, there are various other applications for resin for which our Resin can also go.



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Anand Jain: Fitting is 100% and piping is around 75% right now?

Sanjay S. Math: Exactly.

Anand Jain: Thank you Sir. Thanks for your words.

Moderator: Thank you. Well ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Ritesh Shah for closing comments. Over to you Sir.

Ritesh Shah: Thanks Janice. Thanks everyone for joining on the conference call. Whabi Sir, any further remarks from you?

Anil V. Whabi: Nothing Ritesh at present.

Ritesh Shah: Thank you so much. Thank you all for joining the conference call.

Anil V. Whabi: Thank you all for participating. Thank you.

Sanjay S. Math: Thank you.

Moderator: Thank you. On behalf of Investec Capital Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.