



**Finolex Industries Limited Third Quarter Financial  
Year 2015 Earnings Conference Call  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Finolex Industries Limited Q3 FY'15 results conference call hosted by S-Ancial Advisors. As a reminder, all participant lines will be in the listen-only mode. 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. Milan Bavishi from S-Ancial Advisors. Thank you and over to you.

**Milan Bavishi:** Good evening. I, on behalf of S-Ancial Advisors, welcome you to Finolex Industries Q3 FY'15 results concall. We have with us Mr. Prakash P. Chhabria - Executive Chairman and Mr. Saurabh S. Dhanorkar - Managing Director. I now hand over the call to Mr. Chhabria. Over to you Sir.

**Prakash P. Chhabria:** Thank you, good afternoon everyone and welcome to Finolex Industries Investor Conference Call. The revenues net of interdivisional transfers for the quarter ended December 2014 were Rs.643 Crores, 2.6% lower as compared to Rs.660 Crores in Q3 FY'14. The EBITDA before exceptional items was at a negative of Rs.11 Crores as against Rs.118 Crores during Q3 FY'14. The loss before tax effect during the quarter was Rs.64 Crores as against profit of Rs.92 Crores during Q3 FY'14. Loss after tax adjustment during the quarter was Rs.44 Crores as against profit after tax of Rs.64 Crores in Q3 FY'14. Broadly the reasons for the drop in profitability during the quarter were as follows. Sharp drop in PVC prices from USD1000 that is Rs.70,500 per metric ton in September 2014 to USD780 that is Rs.56,300 per metric ton in December 2014 resulted in inventory losses of around Rs.100 Crores. Comparatively PVC prices were USD1050 that is Rs.70,700 per metric ton in September 2013 and USD1010 that is Rs.68,100 per metric ton in December 2013. PVC/EDC spread further reduced to USD455 per metric ton during Q3 FY'15 as against USD662 per metric ton during Q3 FY'14. PVC prices on back of crude oil prices continuously drifted downward during Q3 FY'15, which put the dealers and the buyers in wait and watch mode, and to certain extent postponing purchase of pipes and fittings. This also impacted the PVC resin volumes. Crude prices dropped from \$92 per barrel in September 2014 to \$54 per barrel by end of December 2014. The captive power plant took longer than expected to resume operations. The company had to purchase power from grid leading to a higher cost of about Rs.8 Crores. The CPP has resumed operations from December 2014. Increase in other expenses by Rs.9 Crores was mainly due to the current branding initiatives, plant maintenance, etc. There was a rupee depreciation during the quarter from Rs.61.75 to Rs.63.04 per dollar. The impact of which is about Rs.14 Crores. We are watching with interest the initiatives from the new government at the center, which are very positive for the demand of PVC pipes and fittings in the coming years. The government's focus on water for agriculture and sanitation augers well for our business. Our discussion with various parties regarding new product for the water business is progressing and we expect to start some commercial activity during the next few years. The prices of PVC resins and PVC pipes and fittings have also stabilized at lower levels, which are very positive for demand in the longer run. We continue to be very bullish on a long-term prospect and we consider the drop in margin is a temporary phenomenon. The key focus areas going ahead will be to increase the captive consumption of PVC resin and there will be no capacity addition for PVC resin. The pipes capacity is to increase by about 30,000 tonnes each

year for the next two years. In two overall return ratios via low capital outlay for the brown field CapEx for PVC pipes and fittings continue to run PVC pipes operations with cash-and-carry model. Increase company's distribution network and the reach by having more warehouse facilities across the country. Healthy cash generation to aid in debt reduction over the next few years. Develop solutions in the water management business. I now leave the floor open for questions. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "\*" and "2". Participants are requested to use only handset while asking questions. Ladies and gentlemen we will wait for a moment while the question queue assembles. Anyone who wishes to ask a question may press "\*" and "1" at this time. Our first question is from the line of Kalpesh Goti from Wallfort Financial. Please go ahead.

**Kalpesh Goti:** Good evening Sir. Can you give me the breakup of internal and external PVC consumption volume and amount for the quarter?

**Saurabh S. Dhanorkar:** PVC consumption external quantity is 47,100 metric tonnes and value is Rs.294 Crores. In-house is 14,600 metric tonnes and value is Rs.72 Crores.

**Kalpesh Goti:** For the Q3 FY'14?

**Saurabh S. Dhanorkar:** For Q3 FY'14, the figures were 39,300 metric tonnes external quantity and Rs.275 Crores was the external value. In-house quantity was 31,600 metric tones and the value was Rs.216 Crores.

**Kalpesh Goti:** We have seen drastic fall in volume and demand of PVC pipe. What is the situation for the Q4? Have you seen any demand for the Q4?

**Prakash P. Chhabria:** Last time I gave a conference call and I said that things are looking better. The next day itself PVC prices started dropping and the demand fell, but today what we see is that the crude drop which has happened has already I think reached the bottom of the barrel. We cannot expect \$50 to become \$25, so the market has also seen this and therefore the market has started picking up volume. So, if you look at January this year, our volume growth has been there much higher than November, December, month on month, but if you look at a quarter that is January, February, March, even now in February we are looking at good volumes and going ahead up to the monsoon starting itself I think we should be doing good. As I can see, PVC has started firming up, crude has started firming up, rupee is stable, so I really do not see anything negative happening. So whatever negative was to happen has happened in the Q3, part of that negative will be carried forward in the Q4 by way of inventory which now is getting over, so going ahead I think things look better.

**Kalpesh Goti:** So, we do not see any inventory loss in Q4?

**Prakash P. Chhabria:** There is certain inventory loss which we have absorbed in January. So, Q4 will have certain weeks which will have a higher inventory cost.

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

**Maulik Patel:** Thanks for the opportunity Sir. I have a few questions. One is that if you can give some color on the EDC prices because we understand the fall in EDC was not to the extent to the fall in the PVC price?

**Prakash P. Chhabria:** You are right. EDC did not fall that much, but like we have discussed last time also, the new manufacturing plant that was supposed to come up kept getting postponed and therefore there was tightness in the market because of which EDC did not drop as fast as PVC dropped. If you see from November 15 till December 31, PVC dropped by about \$200, so that was a very sharp fall and that sharp fall had to be passed on to the market immediately. Whereas, EDC gradually fell and I still can see softening, but it is not going as far as PVC has fallen.

**Maulik Patel:** What about those new plants supposed to come? Is there any significant delay in that?

**Prakash P. Chhabria:** They have started slowly, but they have not yet started giving out real output. They are not giving out shipment which can say that it is going to enter the market. So every week we get a call that it is going to be next week, next week, next week. So at the moment it is not there, but what is happening is Qatar is going in for a VCM shutdown because of which there should be tightening in the PVC market, which is a good sign I would say for the coming one or two months.

**Maulik Patel:** Right now the price is around \$815 right?

**Prakash P. Chhabria:** That is correct, but that \$815 as of yesterday and now become \$900.

**Maulik Patel:** Okay, because the crude went up probably last week.

**Prakash P. Chhabria:** So what happens is (a) It is crude effect. (b) As the prices were dropping, all the traders including us stopped buying PVCs. So that created some vacuum in the market. Now when the pipe demand is picking up, people want PVC. So as a producer when I sell PVC, I also know that there is a requirement of the PVC, so I am increasing the prices.

**Maulik Patel:** Understood. If you can give some color on some of your new initiatives like advertisement and increase the presence in the eastern part of the country?

**Prakash P. Chhabria:** Like I had mentioned that we have started our warehouse in Cuttack and I had mentioned that we will now go ahead and start new warehouses in other parts of the country. So, out of the new nine warehouses which I want to start, I am starting off with five on 1st of March and the balance four will start by I think April or mid May. We have seen the effect of the Cuttack. Cuttack in Q3 has grown by 25%, so the eastern sales had grown by 25% and we attribute a lot of this to availability

of the product to the customer from Cuttack that is quick delivery, easy delivery, small packages, cash flows improved for the dealer. So looking at all of that, that is why we are going ahead with another nine warehouses in the country.

**Maulik Patel:** These are at which locations, it is like across the country right?

**Prakash P. Chhabria:** Yes, across the country.

**Maulik Patel:** Coming back to this inventory loss, you mentioned Rs.100 Crores, is it only at the PVC resin division or is there any inventory loss in the PVC pipe division because we carry some inventory in our pipe division also?

**Prakash P. Chhabria:** Pipe division inventory has about Rs.2 Crores loss.

**Maulik Patel:** Okay and this Rs.100 Crores is entirely at...

**Prakash P. Chhabria:** Because you see there is EDC, ethylene, VCM, PVC, so the whole chain got crashed.

**Maulik Patel:** I can compare your pipe volume number which declined by approximately 10% on a Y-o-Y basis, now if I look at some of the competitors' numbers, they did not I think decline, but definitely we cannot compare because the competitor had a decline in the previous quarter. So, I understand that the situation was very challenging across the industry and it is more about the inventory destocking happened, but how far we are confident that the 15% volume growth guidance which we gave earlier definitely is possible to achieve in this year?

**Prakash P. Chhabria:** 15% just because of mathematics is impossible to achieve.

**Maulik Patel:** Yes, I know, but then probably if I look at from June to June, we may probably achieve that number, because then expectation is that last time the monsoon was early and this time also even in normal monsoon we can do very well volume. Apart from that are we putting any new initiatives on our pipe division, if you can give us something on the column or the CPVC volume?

**Prakash P. Chhabria:** If you see because of selling more value-added products, what we are seeing is our net bag per ton is much higher than it was before even though volumes are lower, which means our focus on column pipes, our focus on non-agri pipes and the other segment is all helping us, but as we all know company has started off late in getting into this non-agri market, but the positive thing is that we can see the effects. In the Q3 even though overall pipe sales was done, our per unit, per ton cost has gone up, our per ton realization has gone up.

**Maulik Patel:** That will still decline in the coming quarters because sequentially it is down by 10% and probably the last year, we do not know if the crude price will remain at this level, probably may slightly decline, but if you can share the volume number or the revenue number of the column business?

- Prakash P. Chhabria:** The total sales is there in the presentation.
- Saurabh S. Dhanorkar:** Column pipe for the December quarter is 331 metric tonnes as against corresponding quarter was of course very low, hardly 23 metric tonnes, so that growth as a percentage is enormous because we were only started.
- Maulik Patel:** What about the CPVC?
- Saurabh S. Dhanorkar:** CPVC against 350 tonnes in December 2013 quarter, it is about 675 tonnes in December 2014, so almost doubled.
- Maulik Patel:** Can you give us the debt position, borrowing at the end of the quarter?
- Prakash P. Chhabria:** Borrowing at the end of the quarter, long term, short term all put together is about Rs.730 Crores.
- Maulik Patel:** Okay Sir, thank you very much and wish you all the best.
- Moderator:** Thank you. Our next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Thanks for the opportunity. I just wanted to check if you could give some color on the PVC prices. Basically you indicated it has increased from \$780 to \$810, is this more of a function of demand-supply or what would you attribute this to be and how should one look at it from a perspective of PVC/EDC spread?
- Prakash P. Chhabria:** PVC has gone up from \$810 to \$900 and this basically because of demand-supply. As the pipe market opens up and as the pipe manufacturers start asking for more PVC from the suppliers, automatically prices start going up and this is a clear indication that the demand is going up. It should continue up till June, July of 2015.
- Ritesh Shah:** So, this is more of a function of demand. How have EDC prices moved, basically when PVC moved from 810 to 900, how the EDC prices behave?
- Prakash P. Chhabria:** EDC prices have not gone up at all. They are now at still 280.
- Ritesh Shah:** Okay, so basically they tend to get some margin expansion.
- Prakash P. Chhabria:** Just because PVC goes up, EDC does not necessarily go up.
- Ritesh Shah:** Any color on the VCM prices?
- Prakash P. Chhabria:** VCM I think is close to about 700 and odd dollars.
- Ritesh Shah:** How much was it for the quarter?

**Saurabh S. Dhanorkar:** The market price also moved down because VCM follows PVC very closely, so when PVC came down to 780, VCM came down to almost 660, 670. Of course this 810 to 900 was a very sharp move for PVC that is yet to be reflected in VCM. So, VCM was around 700 till about two weeks ago, that will further slowly move up. Between VCM to PVC, the delta is between 150 to 200, which is quite steady.

**Ritesh Shah:** Okay, fair enough. Sir, secondly I wanted to check basically we do give out pipes and fittings capacity, I just wanted to check all of the capacity of internal 100% our own or do we also have an outsourcing kind of model for this particular business?

**Prakash P. Chhabria:** We have a small portion of our business which is outsourced that is in the fitting range.

**Ritesh Shah:** Okay, so what part of the total volumes would be it, say around 10% to 15%?

**Prakash P. Chhabria:** About 10%.

**Ritesh Shah:** Okay, fair enough. Thanks for answering my questions.

**Moderator:** Thank you. Our next question is from the line of Rajesh Gandhi from B&K Securities. Please go ahead.

**Rajesh Gandhi:** I just wanted to know, as you mentioned that PVC prices again inching up and is around \$910, how the spread is moving after the December quarter, can you throw some light on that?

**Saurabh S. Dhanorkar:** That has improved drastically because the EDC as we said had stayed at \$280 and PVC has moved to \$900, so it is a good spread again.

**Rajesh Gandhi:** Okay fine, I understand. How we generally record the inventory, basically vetted average method or may be LIFO, FIFO, just want to know whether such type of inventory loss is expected in the method?

**Saurabh S. Dhanorkar:** We value on vetted average basis. So, whatever was the inventory on 31st December also was comparatively higher price inventory compared to the current prices, so till that inventory gets completely exhausted, now as we are talking is almost exhausted, but January also had an effect of that higher inventory, so there would be some inventory losses in January also.

**Rajesh Gandhi:** So, in the current quarter also one can expect some little amount..

**Saurabh S. Dhanorkar:** Yes, there will be some inventory losses.

**Rajesh Gandhi:** Fine. One more thing, the captive power started operationally full or is still..

**Prakash P. Chhabria:** Now it is full. From 10th December it is full now.

- Rajesh Gandhi:** Great. One more thing, couple of days back I think you mentioned about the vision in the next five years to doubling the top line of the company and to reach 1 billion dollar. So, we stick to that particular looking the current scenario of the movement of the international crude price and maybe the PVC price?
- Prakash P. Chhabria:** Your point is very valid because the target has now gone up by 25% more just because PVC prices have dropped so much, but as prices go up perhaps in the next four to five years we will see prices going up again and that would help us compensate for that. So, internally we are keeping the same because it is a cyclical business.
- Rajesh Gandhi:** Okay, fine. As you mentioned in last one of your presentations that you are looking to add new things basically in the water management system. Can you just throw some light what maybe our thought process or what maybe you are looking in that scenario?
- Prakash P. Chhabria:** We are already in talks with these different manufacturers about three different products, but as these are something not related to our business, that is they are not pipes and fittings, they are totally different it is taking us time to say yes, we will run with any of those three or no, we will not run, because we are trying to be very careful. If you see at the end of the day, what I am doing is I am imparting Finolex brand on that product and these are new companies and new products, so I do not want to get into a situation that after a period of one year or two years because I have not done a proper due diligence or because I have hurried up in going out and launching the product, we find the product is not up to the mark and is not of quality, I would not like the brand to suffer with all of that.
- Rajesh Gandhi:** Right, but what was the new product we are looking to introduce, we are manufacturing also or we purely use our marketing?
- Prakash P. Chhabria:** This will be purely marketing.
- Rajesh Gandhi:** We are not looking any manufacturing here?
- Prakash P. Chhabria:** Let us say we start selling now for the next two to three years and we find it is a fantastic product then perhaps we will start manufacturing it, but at the moment there is no manufacturing for the next two years.
- Rajesh Gandhi:** Okay, entirely maybe on the B2C style related.
- Prakash P. Chhabria:** That is right, because we are trying to leverage on the existing dealer-sub dealer network. So therefore spending money on CapEx and then again using that, it is better that we just leverage it.
- Rajesh Gandhi:** So, we may have to pay some royalty or something?
- Prakash P. Chhabria:** It is too early, but none of these three products have got any royalty in it.

- Rajesh Gandhi:** So, it is like a profit sharing basis, I understand Sir. Fine, thanks a lot, and I wish you all the best.
- Moderator:** Thank you. Next question is from the line of Sonal Srivastav from Religare. Please go ahead.
- Sonal Srivastav:** Sir I just wanted to understand with regard to you have mentioned that the capacities would be going up by 30,000 tonnes for the next two years respectively, in these brown field expansions how much we will be spending to expand the capacity and as we mentioned that for the next five years our long-term target is to double our turnover, so what kind of Capex requirement would come in accordingly if we look at that two to three years long horizon and would debt-equity also increase accordingly?
- Prakash P. Chhabria:** Our Capex pans guidance does not change because we do not want to go over 30 Crores a year and being brown field debottlenecking, we get extra output so we really do not have to spend that much money. Coming to the doubling of the turnover after five year is also going to include third-party products, which I just spoke about, so it is not necessarily going to be out of my own Capex. We are also looking at that being part of the turnover.
- Sonal Srivastav:** Okay, understood. In this, when you talk about the brown field expansions, the capital outlay is very less, in terms of asset turnover, does it imply that we get higher asset largely because of these upgradations and debottlenecking and whatever we are trying to do? We have already seen some incremental asset turn happening from us in the presentation that we have already indicated from 1.2 in FY'6, we have gone up to 2.8. What I am trying to understand is, is there more potential to juice these existing facilities or you may need to ultimately sometime go into a green field facility also in future if we assume that 10% to 15% growth organically continues for the PVC pipes?
- Prakash P. Chhabria:** At the moment, I really do not think we need to go in for any green field.
- Sonal Srivastav:** Okay, sure, thank you.
- Moderator:** Thank you. Our next question is from the line of Umesh Patel from Sharekhan. Please go ahead.
- Umesh Patel:** Thanks for giving the opportunity Sir, couple of questions from my side. I have seen that in our notes to accounts we have shown that the Forex derivative loss of 14 Crores during this quarter, I just wanted to know if you can give some highlight on that and elaborate the things?
- Prakash P. Chhabria:** 14 Crores is not derivative, it is forex. In the note what we have written for nine months ending there is a derivative thing, which we had mentioned in our first quarter results.
- Umesh Patel:** So, this 14 Crores pertaining to what?
- Prakash P. Chhabria:** Foreign exchange, normal dollar to rupee.

- Umesh Patel:** Okay. I just wanted to know if you can give fittings volume in PVC pipe segment, volumes and revenues, what was the contribution?
- Saurabh S. Dhanorkar:** Fittings volume in the last quarter was about 2800 metric tonnes, last year same quarter was about 2400 metric tonnes, in previous quarter sequentially 2500 metric tonnes. Revenue was about 45 Crores for December 2014 against 41 Crores in December 2013, and about 42 Crores in September 2014.
- Umesh Patel:** Sir I just wanted to know what was the production route ratio between ADC, VCM to PVC for the quarter?
- Prakash P. Chhabria:** It is not handy. I will have to get back to you on that.
- Umesh Patel:** Sir the last question was related to what was the delta spread between EDC, PVC and VCM, PVC in third quarter.
- Prakash P. Chhabria:** EDC, PVC as we have given in the presentation is \$455 and VCM to PVC was I think hardly it came down to hardly about \$20.
- Umesh Patel:** So do we expect better margin sequentially now factoring inventory loss as you mentioned that we will suppose to report?
- Prakash P. Chhabria:** Correct, as we are talking now that EDC to PVC spread has improved to \$620 obviously we would not enjoy that full thing for the entire quarter but January was still lower so on an average from 455 will move to about between 550 to 600 something like that and VCM we do not carry much talks VCM has immediately improved to about \$120.
- Umesh Patel:** So the translation effect would be much better actually in fourth quarter in terms of margin expansion right?
- Prakash P. Chhabria:** Correct.
- Umesh Patel:** So can we expect sequentially 200 to 300 BPS expansion in margin sequentially?
- Prakash P. Chhabria:** We do not give any profit guidance.
- Umesh Patel:** Approximately sequentially considering the inventory loss as well?
- Prakash P. Chhabria:** Yes.
- Umesh Patel:** Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

- Kamlesh Kotak:** Sir just wanted to understand how the demand scenario pans out as we are talking of restocking demand emerging and also the demand coming from the season so what kind of volume growth we are saying for this and the coming two quarters maybe?
- Saurabh S. Dhanorkar:** Currently as you rightly said, the trade channel is completely dry the dealers for even right up to sub dealers there is not much inventory so there is a sudden surge in demand that we are seeing now but obviously based on the volume that we have lost, we may not end up the year with a very strong growth quarter-on-quarter we are still we again looking at double digit growth and this current prices actually which have come down the pipes price especially are very, very good for the growth in demand because now the farmers find the pipe price is very attractive and we have seen in the past that when pipe prices do such a correction in the demand surges so we are very bullish on the demand now.
- Kamlesh Kotak:** So Sir last year fourth quarter end, first quarter we have done almost 51000 and 53000 metric tonnes can we at least achieve that or report some growth on that?
- Saurabh S. Dhanorkar:** Definitely growth.
- Kamlesh Kotak:** Any kind of a guidance there what percentage growth we can have on those numbers?
- Saurabh S. Dhanorkar:** It was a good number, I would say normally again we will be doing not give any guidance but it will be a good growth we are very confident of the growth. January has already seen a good growth and February, March we are expecting better.
- Kamlesh Kotak:** Second thing Sir, I want to understand your pricing policy how frequently you revise prices in the current dynamic markets is it quickly, fortnightly, monthly how are you take the call on pricing front?
- Saurabh S. Dhanorkar:** The prices of pipes are they move in tandem with the PVC resin prices and PVC resin prices obviously in India are basically led by Reliance and the industry follows so they happen will like in January we have had already two price increases in PVC resin and the same has been more than pass-through in the pipe pricing, so we have had Rs.2 price increase in PVC resin and increase in pipe prices has been much more than that. So there is no set rule as to whether we do it monthly or quarterly depends on the international prices of PVC resin which get translated to the Indian prices and then they get translated to the PVC pipe resin.
- Kamlesh Kotak:** But Sir again in February we have seen quite a good amount of spurt in the prices so is there any price increase that has happened in the recent week?
- Saurabh S. Dhanorkar:** Yes we had a price increase two days ago and we are expecting further price increase in the month of February.
- Kamlesh Kotak:** Sir how much was the inventory as on December if you can share the numbers in absolute terms?

- Saurabh S. Dhanorkar:** Raw material or finished goods.
- Kamlesh Kotak:** Both Sir.
- Saurabh S. Dhanorkar:** I think I do not have it handy right now. We will have, so this in terms of value it is about 630 Crores tonnes wise breakup I do not have right now.
- Kamlesh Kotak:** 630 Crores comprises both raw material and finished goods.
- Saurabh S. Dhanorkar:** Yes.
- Kamlesh Kotak:** What would be the proportion any number to that?
- Saurabh S. Dhanorkar:** As compared to the corresponding quarter last year, that was about 540 Crores.
- Kamlesh Kotak:** So that is after taking the write down which is 630 Crores you said?
- Saurabh S. Dhanorkar:** Yes.
- Kamlesh Kotak:** Thank you.
- Moderator:** Thank you. Our next question is a follow up question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** I have follow up questions on this foreign exchange. In the press release if I see you have mentioned given the breakup of Rs.27 Crores where Rs.14 Crores is the settlement of play one is to derivative I think this is for this particular quarter.
- Saurabh S. Dhanorkar:** No we club both because the nine month figure has a settlement of derivative that figure is clubbed actually this quarter what we are showing 14.27 Crores is only for normal foreign exchange loss.
- Maulik Patel:** No Sir we have shown 27.8 Crores in a P&L the exceptional item and exhibit.
- Saurabh S. Dhanorkar:** That includes write-down of inventory.
- Maulik Patel:** So basically even is that 14 Crores is in a normal forex loss it is not against the derivative right.
- Prakash P. Chhabria:** In the third quarter there is no derivative loss.
- Maulik Patel:** I thought that is about our contingent liability which is spending.
- Prakash P. Chhabria:** Not at all, that is just coincidence otherwise nothing.

- Maulik Patel:** Sir on the PVC price as you mentioned this currently is around \$900?
- Prakash P. Chhabria:** Yes.
- Maulik Patel:** Do you see at what level you have probably may not have to have any kind of inventory gain or inventory loss for this quarter because you said that there is some high course inventory at the beginning have you done any kind of work on that or probably you can give some sense on that?
- Saurabh S. Dhanorkar:** No you mean at what level do we get out of the inventory losses?
- Maulik Patel:** Yes.
- Saurabh S. Dhanorkar:** No it is basically the fiscal movement because January we had a very strong sales month so both PVC rasin and pipes has shown good growth in January. So bulk of that higher price inventory is now out of the system but which means January was a high cost month so the prices also went up it was high cost month, February is when we are now really enjoying the good margin.
- Maulik Patel:** Sir you mentioned about few initiatives which you probably want to take into the water business but Sir we understand the Finolex brand is owned by the family so we essentially in any kind of new product launch what we are going to use is basically more our marketing stand.
- Prakash P. Chhabria:** Finolex brand is not owned by family.
- Maulik Patel:** So who own the Finolex brand?
- Prakash P. Chhabria:** The company itself.
- Maulik Patel:** Is it Finolex industry or Finolex Cable?
- Prakash P. Chhabria:** Both.
- Maulik Patel:** Is it registered to do brand?
- Prakash P. Chhabria:** Both registered.
- Maulik Patel:** So both can use it right.
- Prakash P. Chhabria:** Yes.
- Maulik Patel:** So there is no claim from the family?
- Prakash P. Chhabria:** No.

- Maulik Patel:** Sir any update on this land deal because we probably have something in the middle of the quarter there is some happening?
- Prakash P. Chhabria:** Again now we are making a trip to Japan in the month of March end I think, the date is being fixed.
- Maulik Patel:** Sir this land is largely for the industrial use right?
- Prakash P. Chhabria:** Yes, definitely.
- Maulik Patel:** We have not been going to convert it from industrial to the residential so far?
- Prakash P. Chhabria:** Well we have not been able to and I do not think we want to get into the residential gambit.
- Maulik Patel:** So whom we actually just following in the industrial only.
- Prakash P. Chhabria:** Yes.
- Maulik Patel:** Thank you.
- Moderator:** Thank you. Next question is from the line of Kalpesh Goti from Wallfort Financial. Please go ahead.
- Kalpesh Goti:** Sir, can you give me the CPVC revenue in terms of amount?
- Saurabh S. Dhanorkar:** CPVC for the quarter is about 16 Crores, 10 Crores of pipes and 6 Crores of fittings.
- Kalpesh Goti:** Thank you Sir.
- Moderator:** Thank you. Our next question is a follow up question from the line of Kamlesh Kotak from Asian Markets. Please go ahead.
- Kamlesh Kotak:** Sir what is the current capacity utilization?
- Saurabh S. Dhanorkar:** Current capacity utilization this year we will be producing about 200,000 metric tonnes against capacity of 230,000 tonnes the new capacity is still under implementation so almost you can say 85%.
- Kamlesh Kotak:** So post the expansion or what it would be in terms of capacity.
- Saurabh S. Dhanorkar:** 260,000 tonnes.
- Kamlesh Kotak:** When that would commission Sir?

- Saurabh S. Dhanorkar:** Hopefully before March or maybe it will get into the next year.
- Kamlesh Kotak:** Can you share your strategy in terms of how you intent to grow CPVC business on a low base and in terms of capacity how you see the expansion of that business?
- Saurabh S. Dhanorkar:** Again as we have been saying in the past it is for us for our total size CPVC is still a very small business yes it is doing well because of our brand name and our trade channels are demanding more and more of it, but we still do not claim to have our real focus on that business so to the extent our distributors/dealers demand, we have some capacity already available there but we do not have any intentions of making any big capex in that line.
- Kamlesh Kotak:** Is there any constraint in terms of availability of multihull or technology or what is basically the constraint?
- Saurabh S. Dhanorkar:** There is no technology in pipes which we have been producing absolutely no problem and we are able to get whatever we need we are able to get from Arkema by next year there will be more availability within India so that we do not really see that...
- Prakash P. Chhabria:** There are two new plants coming up in India for CPVC. Very soon CPVC will become a commodity also, but that is not going to be our focus area.
- Kamlesh Kotak:** What would be our total revenue for the nine months from that business Sir?
- Saurabh S. Dhanorkar:** I think we will have to get back to you on that.
- Kamlesh Kotak:** Thank you.
- Moderator:** Thank you. Next question is from the line of Vipul Shah, who is an individual investor. Please go ahead.
- Vipul Shah:** I just want to know what will be our strategy because oil prices are very volatile and they are likely to remain volatile some people are predicting that it may touch 30 some are predicting it may go to 90 if Shell production comes to an hold so my question is how do we guard against such type of inventory losses in the case of high fluctuation of oil prices and its resultant effects on PVC prices?
- Prakash P. Chhabria:** See we are already in touch with consultants but I do not think anybody predicted this kind of a drop.
- Vipul Shah:** Yes, I understand that it is not practically possible to guard 100% but can you take any means are we taking any preventive actions so that such episodes do not get repeated?
- Prakash P. Chhabria:** I know but there is no real action one can take that we are already not taking. You see when you buy raw material by the time you place your purchase order till you receive the material and till

you consume it there is going to be always a time lag. So when the prices go down let us say if the prices go down from like you are saying from \$50 to \$35 so again there will be a pain for that raw material. Now the same thing goes from \$50 to \$90 then obviously we will start making money so if you see in the first quarter of this year we made 100 Crores profit.

**Vipul Shah:** It cuts both ways?

**Prakash P. Chhabria:** Yes it cut both ways, so one cannot guard so to say I mean there is no real formula to that.

**Vipul Shah:** Thank you and all the best for the future.

**Moderator:** Thank you. Next question is a follow up question from the line of Umesh Patel from Sharekhan. Please go ahead.

**Umesh Patel:** Just a follow up question. Just wanted to know as you highlighted that we are not that much focused on CPVC products but I just wanted to know why do not we focus on that particular segment, we generally has strong replacement demand compared to PVC pipes and other products and margins are also high in that particular segment due to usage of more fittings further Lubrizol is also putting up plant in India in next year and last year also it has canceled license of one company Ajay Flow Guard which is now Ajay Flowline. So I just wanted to know there is a possibility that we might get license and raw material availability is it in the next couple of years and CPVC has a huge potential do not you think so that we should focus on that particular segment as well?

**Prakash P. Chhabria:** What we do focus on is the non-agri pipes and within the non-agri pipes there is something called CPVC. Now CPVC as a product as you know it used for hot water. I do not think in India we use hot water for anything except from your geyser to your shower or from your geyser to your washbasin. So I cannot go to a customer and tell him that even though it is going to be used for hot water usage use it for normal water Finolex cannot get into that. We sell on different philosophy. We sell on different principles; our principle is not are now my segment to go and tell you and they sell your product.

**Umesh Patel:** But Sir if I look at the market actually retail market, particularly retail market that hardware shops everywhere whenever customer asks for the products for this renovation work or for anything particularly towards construction or residential segment actually they generally use to prefer CPVC products, it is not be UPVC which generally used in that projects sync pool something kind of things.

**Prakash P. Chhabria:** I agree with what you are saying but if you see CPVC has been in the world for the last 20 years. It is not yesterday's phenomenal. CPVC is being sold in India also for the last 20 years so it is not yesterday phenomenal, so it is not something that there were no houses up to 20 years ago and 15 years ago, 10 years ago. It is started off recently because of whatever reasons.

- Umesh Patel:** But Sir if I look at the opportunities and the pace actually the CPVC production evaluation to place from 2000 onwards only and if you look at the opportunity that is pertaining huge compared to PVC?
- Saurabh S. Dhanorkar:** No, but I think you have your figures wrong because CPVC from a small base yes as a percentage growth it is growing very fast but CPVC as a whole is nowhere near the total UPVC plumbing market if you take the total UPVC pipe market in India it is close to 20 lakh tones, the total PVC market and CPVC hardly 1 lakh tones. So CPVC still a small player, yes the players have shown good growth percentages, but it is not going to replace UPVC, we are not at all worried about that.
- Umesh Patel:** Thank you very much Sir.
- Moderator:** Thank you. As there are no questions, I now hand the conference over to Mr. Bavishi for closing comments. Over to you!
- Milan Bavishi:** Thank you everyone for attending the call and have a nice weekend.
- Moderator:** Thank you. Ladies and gentlemen on behalf of S-Ancial Advisors that concludes the conference call, thank you for joining us you may now disconnect your lines.

*For Further queries:*

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