



“Finolex Industries Limited Q3FY16 Earnings
Conference Call”

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MODERATOR: **MR. MILAN BAVISHI – PRESIDENT, S-ANCIAL GLOBAL
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Moderator: Ladies and gentlemen, good morning and welcome to the Finolex Industries Limited Q3 FY 16 Earnings Conference Call hosted by S-Ancial Global Solutions. 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 the Touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Milan Bavishi. Thank you and over to you, sir.

Milan Bavishi: I on behalf of S-Ancial Global welcome you to Finolex Industries' Q3 FY-16 Results Conference call. 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: Good morning everyone and welcome to Finolex Industries' Investor Conference Call. For Q3 FY16 the revenues were Rs. 547 crores as against Rs. 643 crores for Q3 FY15, down by 15%. EBITDA before exceptional items was Rs. 84 crores as against negative EBITDA before exceptional items of Rs. 9 crores for Q3 FY15 and PAT was at Rs. 43 crores against loss of Rs. 44 crores for Q3 FY15. The sales volumes for Q3 FY16 for PVC Resin including interdivisional transfers were at 60,500 metric tons, down by 2%. And for PVC pipes and fittings were at 42,445 metric tons up by 9.2%.

For nine months FY16, the sales volume for PVC Resin including interdivisional transfers were at 165,000 metric tons up by 13.3%. And for PVC pipes and fittings were at 141,000 tons, up by 9.5%.

The demand for pipes and fittings continues to be good and we are very confident that going forward in this segment the growth will be encouraging. I now leave the floor open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Just wanted to ask couple of questions. First a few bookkeeping questions. Could you let us know the internal transfers this quarter or the external sales figure for the PVC segment and for the nine months as well?

Saurabh Dhanorkar: Our CFO Mr. Whabi will answer this.

Anil Whabi: During the quarter the external sales of PVC was about 30,000 tons and captive consumption was also 30,000 tons.

Kashyap Pujara: And for the nine months?

Anil Whabi: For the nine months, the external sale was 65,000 tons while the captive consumption was about 100,000 tons.

Kashyap Pujara: In the recent past, considering that even in the last quarter there was the prices of PVC were cooling off and whatever our channel check and whatever we here from the marketplace is that dealers typically took less offtake because they were anticipating a price fall. So essentially, they postponed their decisions anticipating a further fall and as a result the channel is seems to be pretty lean at the current movement very light.

So wanted your assessment on that because you have done some decent close to 9% to 10% volume growth even during such a period where dealers were not so coming forward to take deliveries. So wanted your thoughts on that and whether you see that basically giving a big boost to Q4 volume numbers?

Saurabh Dhanorkar: You are absolute right, Kashyap because during the quarter October to December the PVC prices internationally and obviously domestically were falling. So the dealers were not carrying much inventory. Now after or rather on 1 February we had the first increase and the trend is now looking upwards. So now the dealers have come back into the market in a big way and we are looking at strong growth numbers.

Kashyap Pujara: So in the backdrop of this would you be looking at increasing the volume guidance or you maintain at least 15% annual guidance? What is your sense about that in terms of where do you see volumes coming up to?

Saurabh Dhanorkar: No, since we are at 10% for the nine months, 15% for the year as a whole to be honest does not seem possible because we will have to have a massive growth but it will definitely will be better than what we were doing. It will be definitely double-digit growth.

Kashyap Pujara: And going forward what is your sense of the trend of demand that you see in terms of what is the sustainable growth that you expect to deliver even in the next year as far as pipes and fittings are concerned?

Saurabh Dhanorkar: We are very bullish on the demand with all these new initiatives by our Prime Minister, Mr. Narendra Modi. One is on the irrigation side. The second is on the Smart City side. So demand looks very robust. We are already looking at traction coming up from certain states. So and this would be definitely double-digit and probably next year and year after would be better growth rates than we have ever had in the past.

Kashyap Pujara: And just a question on margins. While the overall profitability is quite healthy this quarter but on the PVC pipes margin we are still not yet in double-digits and considering that the mix of the products will eventually shift towards more of value added fittings. Wanted to basically understand what is your sense on margins and are you internally satisfied as a management with the current margins and where do you expect the margins to stabilize over the next couple of years?

- Saurabh Dhanorkar:** We are most certainly not satisfied with the current margins and if you have seen the growth in fitting segment is almost 25% for the quarter. So we are on track on our goals, which we have declared a couple of years ago. Fittings as a value added item is growing. Only thing this quarter we did not get the margins, which we were anticipating because as I said prices of PVC resin and consequently pipes and fittings dropped twice. So though we cannot call it an inventory loss but obviously whatever little stock we were carrying were sold at a lower price. So that has affected the margins. But going ahead we see definite improvement in margins.
- Kashyap Pujara:** I will just ask the last question and then I will go back to the queue. And that is, what is the percentage of fittings in the total pipes volume in this quarter and for the nine months and how does it compare over the same period last year?
- Prakash P. Chhabria:** In terms of volumes, it is about 8% in the quarter and same applies for the nine month as well. It is slightly higher than what it was earlier year.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir, first question is we have shown margin expansion on a sequential basis. Would you attribute this to the low cost inventory for EDC, Ethylene and VCM that we had?
- Prakash P. Chhabria:** Yes definitely, because after what happened last year we have been careful with our inventory control on the whole chain right from EDC to pipes because we have a bigger chain. So keeping that mind we were very cautious and that I think has helped us a lot.
- Ritesh Shah:** But sir, if we look at the quarter end pricing I just checked for EDC, Ethylene VCM and the prices were substantially lower. So how does one look at it so? Is it purely if there was a bit of inventory loss does it get captured in the margin profile itself? So how should one look at it?
- Prakash P. Chhabria:** If there was no slide in the raw material, our profits would have been definitely much higher.
- Ritesh Shah:** So what you mean to say is there was a bit of inventory loss?
- Prakash P. Chhabria:** It has to happen. We cannot stop and pause.
- Ritesh Shah:** Correct. That helps a lot. Sir, second is on the distribution network we had three warehouses and we had plants to set up another three over next six months that is second half of this year. Sir, how do we stacked up over there, how was the progress been?
- Prakash P. Chhabria:** We are still at three because out of the three we had to change two. We were not happy with the two people who are our, what you call contractors, the service providers. So we lost little bit of time in there so the new people, but in the same location i.e Indore and Delhi will be ready by 1st March. And we were first trying to take care of that and after that is over then we will still go ahead and pursue for another two or three warehouses.

- Ritesh Shah:** Delhi and Indore you said, sir?
- Prakash P. Chhabria:** Yes.
- Ritesh Shah:** And sir, any color on the new launches because we have in the past said about water management overall, so any color over there? And a couple of quarters back we also spoke about new projects from Southern States like Telangana and any update over there would also be very useful?
- Prakash P. Chhabria:** Telangana I think will happen but it is not going to reflect on quarter-to-quarter. Because at least the bright sign is that people are talking about it over there on the ground. So maybe then it would not happen tomorrow but it will take at least a year to come. Coming to new products or new sizes we had mentioned about new fittings coming in and about the launch of new fittings and that has already started, we have already started pushing those in to the market. And by the next three months we should be ready with all of them. And your other question was?
- Saurabh Dhanorkar:** Water management.
- Prakash P. Chhabria:** Water management, yes. On the products, which are non-related to pipes and PVC we are still looking at and I still do not have any success. And we are meeting people from all over the world at least once in a fortnight, I would say. So there is nothing which interest me yet, so we keep focusing on pipes and fittings which I am very happy about.
- Ritesh Shah:** Sir, would it be possible to quantify the number of new launches so say the total basket will go to say 3,000 or 4,000 when we talk about fittings just to quantify it?
- Prakash P. Chhabria:** Right now we have started close to 100 and we will do 150 and after those over we will add another about 200.
- Ritesh Shah:** And this will take the total to how much?
- Prakash P. Chhabria:** It should take it to about at least 1,300, 1,400. So total should go up to 1,500 by end of this year. End of this year means sorry, not March 2016, December 2016.
- Ritesh Shah:** And sir, just one last question. Out of the fittings and solvents that we sell under our brand is it all captively manufactured or is it on contracted basis and we brand it?
- Prakash P. Chhabria:** Both.
- Ritesh Shah:** Sir, what would be the percentage? Last question.
- Prakash P. Chhabria:** Majority would be outsourced.

Moderator: Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Sir, couple of questions. First on the spreads. Where are we seeing spreads going forward considering the current prices of EDC, VCM and Ethylene? On Ethylene what we are hearing is there is definitely short supply which is coming in which could trigger increase in prices. So can you just throw some light on the spreads overall? And two is if you can share something on column pipes and CPVC pipes where are we currently placed and where are we going forward?

Prakash P. Chhabria: The spread I think are pretty good but only thing what happens is when we read about spreads you read about a spread let us say of as on 15 February and then you will compare it to let us say as off/on 15 August 2015. But that is only in a perfect world. In a real world that never happens. It is always moving. And what we are happy is that it is not narrowed down and we do not see narrowing happening. Ethylene does do spurts on and off. Sometimes it just jumps up, sometimes it just come down.

There is a shortage of Ethylene in the market for the last I would say between six to nine months already and there have been times when Ethylene did go up but again it came down. So we are not that worried about Ethylene. Anyways the consumption of Ethylene is only 0.30% in the whole PVC. So that was Ethylene. Your second question was regarding?

Nehal Shah: CPVC and column pipes?

Prakash P. Chhabria: So CPVC is we are still growing in CPVC. We keep going healthily in the CPVC pipes and fittings. We even had a big price increase in the CPVC total range and which was passed on in to market went in through smoothly. Column pipes has been also growing. And all of this growth I would say has started maybe post January.

Nehal Shah: Sir, can you share some numbers in terms of value and volumes for column and CPVC for 3Q and for nine months?

Anil Whabi: See in terms of volumes the CPVC pipes what we did is about 800 tons in the quarter and about 2,000 tons for the nine months. And since it is from a low base obviously in terms of percentage, the percentage growth is quite high. And in case of column pipes what we have done is in the quarter we have done about 550 tons and 1,200 tons in the nine months.

Nehal Shah: And sir, as far as column pipes are concerned a year back we were obviously focusing much more on column pipes considering that we already have very, very strong brand reputation with lot of farmers. So column pipes are likely to be one wherein we can have very strong penetration going forward. So where are we positioned now and maybe going forward for column pipes in particular?

Prakash P. Chhabria: I think if you see that numbers which Mr. Whabi said, will just show you because the whole nine months was 1,200 whereas just the last quarter out of that 1,200, 550 was in one quarter.

So I think the traction is picking up, rural markets are opening and overall because we are able to maintain that 9.5% volume growth for nine months. I think things are better now, the demand is growing.

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

Maulik Patel: A couple of questions. One is how our dealer engagement is going on because we have set up a couple of warehouse and then basically as usual increasing dealers or distributors I believe to response the demand in a better way. So where do we stand that side, that is number 1. And number 2, is again on the PVC spread side. I think the numbers were better than what most of us expected. Is it one time? Because we did better manage our inventories, but is it sustainable or not that is the question one need to see. And sir, last question is on this though the PVC price was corrected, we also understand GI prices was also corrected and in agriculture in certain applications the farmers can use the GI pipe compared to PVC pipe. Is this hypothesis correct?

Prakash P. Chhabria: I will start with the easiest one. Your third one was the easiest. I do not think that can ever happen, not now but forever, reason being.

Maulik Patel: In column pipe?

Prakash P. Chhabria: Sorry?

Maulik Patel: Can it happen with column pipes?

Prakash P. Chhabria: Impossible. All these things are stories people start floating for I do not know what reasons, for their own private reasons maybe. But you see the ease of using a PVC pipe whether in the form of a column pipe or laying it horizontally, the reliability of that pipe which has been pooled for the last what 25 years, 30 years it cannot just go away because of an incident where you are saying steel prices are coming down or whatever. So that is out. The tooling, the expertise of the people on the ground also is not into PVC. So that I personally I do not foresee that ever happening.

Your second question about warehouses, like I mentioned in my earlier answer, our experience with our earlier contractors was not doing good. So we lost a little bit of time and market in really getting that benefit. So the new people are coming in from 1st March and we are pushing them to start on 1st March and I think they will start. So with that the real benefit will start happening into the market. As far as the spreads are concerned, yes, the spreads are cyclical. Our business is cyclical but I think the spreads will be healthy going forward. I really do not see any reason why this should narrow.

Maulik Patel: So what we anticipated one or two years back that Ethylene will come into the significant or supply a territory, is that finally happening?

- Prakash P. Chhabria** That is EDC not ethylene.
- Maulik Patel:** Yes sir, EDC?
- Prakash P. Chhabria** Ethylene Di Chloride, you are right, Yes so EDC if you will see has dropped more than 50% so that benefit is already there to the company.
- Maulik Patel:** Sir last question on bookkeeping. Can you just tell us the revenue between the fittings and the pipes, the breakup of revenue?
- Anil Whabi:** In the quarter the pipe sale in the pipe segment is about Rs. 310 crores and while the fittings sale is about Rs. 53 crores. For the first nine months, this is about Rs. 1,060 crores for pipes and Rs. 170 crores for fittings.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, in the capital employed segment, approximately Rs. 200 crores is attributed. What is it attributed to?
- Anil Whabi:** See mainly it is some liquid investments, which we hold a temporary surplus that we have, major part is that in that.
- Saket Kapoor:** And sir, the employee cost has been on the higher side, can we extrapolate this towards the annual also this figure if we compare it on a year-on-year basis also, the employee cost have gone up is on the higher side?
- Anil Whabi:** This is because of some year-end provision December provisions that it is high in the quarter. But by the time we close the year, that increase will be the normal increase.
- Saket Kapoor:** That is around that 10% inflation mark or?
- Anil Whabi:** Yes, just about that.
- Saket Kapoor:** Sir, now coming to one very basic question. How solid has now the business model been that because earlier there has been huge fluctuations in your numbers sometimes resulting in losses, sometimes resulting in very good profits. So how have you seasoned the company in such a way that we would be able to weather these fluctuations in storm and can come on an even quarterly basis on a very what to say predicted numbers. Because for the last two quarters we have been on a very well chartered trajectory even the crude prices being plummeting to levels as low as 27%, 28%.
- Prakash P. Chhabria:** Saket, what you said is very correct to be able to weather the storm and that our business is cyclical and sometimes when the external forces are too big, for example third quarter 2015, when the crude dropped very sharply in a very short period of time, then obviously we got

affected very badly. But to learn from a lesson what we did is we had a very, very tight management on our inventory. And that is why you will see that in third quarter FY16 even though there has been a drop in crude prices, even though there has been fluctuations we have not gone through a bad phase. So going forward and keeping the same strategy in mind, I think we will be able to weather all kind of storms.

Saket Kapoor: And then sir, coming to the fuel cost advantage sir, this fuel cost advantage is going to stay how are we looking into this aspect of our cost?

Prakash P. Chhabria: Definitely, I think as long as crudes stay in these levels, fuel prices will be down.

Saket Kapoor: It would be gas based our plant or are we depending on naphtha and other fueling?

Prakash P. Chhabria: Naphtha-and other products also; naphtha, kerosene everything

Saket Kapoor: What percentage, can you give the mix?

Anil Whabi: Major in naphtha?

Saket Kapoor: Major is naphtha and the prices have corrected very well over the years. So that advantage is also going through the margins?

Prakash P. Chhabria: Yes.

Moderator: Thank you. The next question is from the line of Hemang Kotadia from Anvil Shares and Stock Broking. Please go ahead.

Hemang Kotadia: Sir, our interest cost seems to bit low that is because mainly because of reduction in debt of the company or that is because of lower working capital at the end of September quarter because of the lower inventory?

Prakash P. Chhabria: Attributable to both, and as you know we have a target of reducing our debt year-on-year so we are working on that and I hope we will continue doing that.

Hemang Kotadia: So what is the December ending debt of the company?

Anil Whabi: See by September we have reduced almost Rs. 200 crores if you compare it with March.

Moderator: Thank you. The next question is from the line of Jayesh Parekh from JMP Capital. Please go ahead.

Jayesh Parekh: I had sir, two questions. One question is what happens if crude price goes down from here or crude price goes up from here, whether in both the scenarios we will be able to sustain our EBITDA margin or increase our EBITDA margin or there could be again impact on our EBITDA margin adversely? Because in last 8 quarters we have seen negative EBITDA margin

to 8%, to 11%, to 15%, and in one of the quarter we had EBITDA margin of even 20%. So definitely the capability of management is not in doubt but we just want to know your gut feeling?

Prakash P. Chhabria: Jayesh Bhai, what happens is like I always say if crude goes down or up gradually, then you know everybody is happy. Not only us but all oil companies you will see any company anywhere in the world. But if crude for any reason goes down very sharply then all of us are in trouble. If crude goes up very up, very sharply then all of us will make too much money. But to be able to predict crude movement even still for tomorrow morning is now become impossible. It is too volatile, it is too transparent, too many political things happening in different parts of the world therefore there is no one direction anybody can guess.

Jayesh Parekh: My another question is that the fall in crude price and fall in prices of EDCs are in the same proportion or EDC prices are falling faster because of excess supply at global level?

Prakash P. Chhabria: Again for what happens is EDC as relative to crude in tonnage is very, very small. So EDC will go up and down based on crude pricing but also depending on the situation on crude EDC demand at that time. So if the demand is there then it will still go up, if the demand is not there, then regardless of crude price it will go down.

Jayesh Parekh: And my last question is, I know there is a slowdown but anything happening on our 80 acre land at Chinchwad, Poona? I think we are using about 20 acres, 25 acres for our warehousing and office?

Prakash P. Chhabria: Yes, people still come. We still have enquiries of people coming and going. But they have still I do not think they have gone and bought any other parcel anywhere else. So it is not that they did not like us and they went somewhere else. Basically I really do not see people having made their investment.

Jayesh Parekh: And what could be the current valuation as per your sense?

Prakash P. Chhabria: My sense, no, I will not say my sense but I will say actual real sense is anywhere between Rs. 9 crores to Rs. 10 crores per acre.

Moderator: Thank you. The next question is from the line of Umesh Patel from IDBI Capital. Please go ahead.

Umesh Patel: A couple of questions from my side. Just wanted to know if you can give me volume unit sold in power segment and also the delta spread of PVC, EDC for previous quarter as well as the last year previous quarter?

Anil Whabi: In case of power, the consumption is the entire captive consumption and in terms of megawatt hours it was 41,000 megawatt hours power that we transferred to our manufacturing units.

- Umesh Patel:** So overall unit was 41,000 megawatt hours, right against the production of 49,602 megawatt hours?
- Anil Whabi:** Right, in PVC it was in both segments, PVC and pipes. And for the 9 months this was about 118,000 megawatt hours.
- Umesh Patel:** And what about the delta spread within PVC, EDC I think it was around \$515 per ton for this quarter, right?
- Anil Whabi:** Yes, just about that.
- Umesh Patel:** And what was it in previous quarter and last year previous quarter?
- Anil Whabi:** See previous quarter it was almost same. Last year during this quarter it was little lower because of the fast slide in the PVC prices. So this was just under \$500 per ton in that quarter.
- Umesh Patel:** And sir, my question is related to industry per se. Any improvement that we saw at ground level particularly after the government initiative on that various schemes like Pradhan Mantri Krishi Vikas Yojana in which the government has allocated Rs. 500 billion and also the focus on irrigation and water linking projects. Have you seen any development or it is just on paper yet?
- Saurabh Dhanorkar:** I will not say it is only on paper, some states have already started rolling out orders. So we see some traction happening but when you talk about Rs. 500 billion, that is a very large figure and that is going to be spread over five years. So we really see big impact coming after a couple of years. Some states already ready, they are rolling out but many states are still gearing up now. So it will come out slowly and that is what we are happy with. We would like it to be a slow and but steady process.
- Umesh Patel:** Which states have already initiated these things?
- Saurabh Dhanorkar:** Gujarat is already way ahead of others, Maharashtra has started, Telangana is on the verge of starting. So some states are doing well.
- Umesh Patel:** Okay and sir, your expectation on this budget regarding agriculture from government side?
- Saurabh Dhanorkar:** Sorry, I did not get your question?
- Umesh Patel:** Your expectation on this budget any benefit that you are seeing for in agriculture side?
- Saurabh Dhanorkar:** No, budget as in percentages frankly we are not really we do not even push for any benefits. But what we see is development happening on irrigation side and government is very, very clearly focused on the farmers' welfare and lot of schemes will be announced to improve the life of farmers. So we do see lot of things happening, which will give boost to our demand.

- Umesh Patel:** And sir, the current area under irrigation is 44%, right?
- Saurabh Dhanorkar:** Correct.
- Umesh Patel:** And what was the industry growth in PVC pipes in quarter 3?
- Saurabh Dhanorkar:** No frankly, there is no authentic information about industry because this is such a fragmented industry that only at the end of the year we manage to get details. So quarter-on-quarter it is difficult to track.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Capital. Please go ahead.
- Vipul Shah:** My question is regarding why we are not having any warehouse in southern part of the country, sir, or is it the planning stage?
- Prakash P. Chhabria:** It is in the pipeline.
- Vipul Shah:** So where exactly we are going to put it up?
- Prakash P. Chhabria:** We have identified two places and it should be somewhere in Tamil Nadu.
- Vipul Shah:** Tamil Nadu and how much time should it take?
- Prakash P. Chhabria:** I do not think more than 3 months to 4 months.
- Vipul Shah:** Okay and sir what are the current PVC/EDC spread as on today?
- Prakash P. Chhabria:** About \$515.
- Vipul Shah:** Means same, which was the average of last quarter, right?
- Prakash P. Chhabria:** Yes.
- Vipul Shah:** And sir, what is the debt reduction targets for next year, any ballpark figure or?
- Prakash P. Chhabria:** For FY17?
- Vipul Shah:** FY17, sir. At what debt level we should end March 17?
- Prakash P. Chhabria:** We reduced debt by about Rs. 150 crores to Rs. 200 crores year-on-year. So that is the ballpark figure instead of saying this is the amount we keep that ballpark figure open.
- Vipul Shah:** Okay so next year also target is same Rs. 150 crores to Rs. 200 crores?
- Prakash P. Chhabria:** Yes.

- Vipul Shah:** And sir finally, what should be the percentage of validated products in the pipe fittings segments in terms of percentage like 10%, 15%?
- Prakash P. Chhabria:** Fittings is about 10%, that is right.
- Vipul Shah:** 10% and where do you see it going over next two years, value added segment from then to?
- Prakash P. Chhabria:** We feel that it will keep growing but see what happens is the whole base is really big because of pipes. And we are pushing pipes also. So it is not that because we want to only push fittings, so therefore that 10% might keep being around that, but the whole base will keep growing.
- Vipul Shah:** Okay so both segments keep growing, that is what?
- Prakash P. Chhabria:** Yes.
- Moderator:** Thank you. The next question is from the line of Parag Thakkar from SVS Securities. Please go ahead.
- Parag Thakkar:** I think in this quarter itself you have reduced a lot of debt right, because your interest cost has fallen from Rs. 16 crores to Rs. 8 crores QoQ?
- Prakash P. Chhabria:** That is right.
- Parag Thakkar:** So can we know the amount sir, what is your net debt as of today?
- Anil Whabi:** Now the debt went down in the previous quarter if you see March to September number the debt has gone down by more than Rs. 200 crores. So obviously a progressive reduction and that effect has come in this quarter.
- Parag Thakkar:** So this quarter you are not paid off incremental debt, right? Incrementally anything you have paid off?
- Anil Whabi:** No, not.
- Parag Thakkar:** And sir, so basically we already said that we are going to increase our capacity by 40% right over next three years?
- Prakash P. Chhabria:** Three years, yes.
- Parag Thakkar:** And in the meantime you plan to become debt free also?
- Prakash P. Chhabria:** Also, yes.

- Parag Thakkar:** So basically sir, on PVC pipes do you feel that the irrigation side will take care of your future expansion because on the real estate side and on the housing side we see very slow activity, very sluggish activity on the ground at least?
- Prakash P. Chhabria:** See what is happening is we are always focusing on the high-end buildings and that is why we feel that market is down. But if you look at affordable housing our Prime Minister Shri Narendra Modi is also talking about.
- Parag Thakkar:** Correct housing for all.
- Prakash P. Chhabria:** So that demand is there. Finally it is in pipe which has to go in the house. So I am not really worried or concerned that real estate is going up or down ways. It is not my business, my business is to sell pipes. And I can see the demand in front of me and I will supply it that is all.
- Parag Thakkar:** Sir, right now our capacity utilization in PVC pipe is 70%, right?
- Prakash P. Chhabria:** Yes, about that.
- Parag Thakkar:** So you feel that still if you expand also then there is a market for it because of mainly driven by both irrigation and housing?
- Prakash P. Chhabria:** Yes, and also what happens is capacity utilization can never become 100% because of the side changes. So that difference between utilization and installed capacity is always going to be there.
- Moderator:** Thank you. The next question is from the line of Dimple Seth from SKS Capital. Please go ahead.
- Dimple Seth:** Sir, I would like to know if you can just throw some light on what would be the volume growth by the end of this year and our outlook for FY17? And also if you can throw some light on the prices?
- Prakash P. Chhabria:** We always try to keep a volume growth of 10%. I am sorry double digit and that double digit can be anywhere between 10% to 15%. This year I think we should be able to close at 10%. Going forward next year we are seeing a lot of traction on new projects coming up. Now depending on when they fructify whether earlier part of the year or end part of the year would give it another fillip to go from going to a higher number.
- Dimple Seth:** Okay and sir currently as you said from the 1st Feb there was some price increase and you see that trend going up?
- Prakash P. Chhabria:** That is right.
- Dimple Seth:** So at what place you will see the prices standing I mean around by the end of this year or the next month?

- Prakash P. Chhabria:** That is not only difficult but impossible to predict.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Yes, just a small follow up sir. How traditionally are these fourth quarter for our industry? If you compare it sequentially with the third quarter?
- Prakash P. Chhabria:** It will be good.
- Saket Kapoor:** It is traditionally a good quarter?
- Prakash P. Chhabria:** Yes.
- Saket Kapoor:** Now coming to one more point. Actually sir, our capital is around Rs. 124 crores, that means a floating stock of around Rs. 12 crores. But the total traded volumes are very abnormal low that leads to very strong volatility in good times, on the upper side and on the downward side in the poor result numbers. So is the management conscious of the fact that they should go for some stocks split so that the participation for investors also increase and the liquidity improves thereby getting better price discovery mechanism that would give better price discovery to the system and the process. What is your thought on that?
- Prakash P. Chhabria:** That is a good suggestion, we can look into it. But you see what has happened is over a period of time investors like to hold on our stock and I thank all of them for that. So therefore I guess you have got your issues about liquidity and all that.
- Saket Kapoor:** And now coming to the operational front. How have the prices of PVC being for the quarter and as of now the January-February how was the price trends of PVC resins?
- Prakash P. Chhabria:** It is firming up.
- Saket Kapoor:** Could you quantify how much have they firmed up from the third to the fourth quarter?
- Prakash P. Chhabria:** That I will be able to tell you in my next conference call.
- Saket Kapoor:** Okay sir and what has been the trend for this CPVC resin prices?
- Prakash P. Chhabria:** That has been stable and actually I think even going down perhaps.
- Saket Kapoor:** Stable and going down?
- Prakash P. Chhabria:** Yes because CPVC is not commodity prices no, nothing left in it.
- Saket Kapoor:** Okay and the special product I think the \$4,000 is the price bracket it trades?

- Prakash P. Chhabria:** Yes, but it is not the same manufacturing cost as U-PVC that is why I said \$4,000 but now the supplies are coming up so if you will see in the next 12 months there is going to be huge supply, huge gap in the market.
- Saket Kapoor:** Okay it will lose its premium sir you mean?
- Prakash P. Chhabria:** Yes definitely, it is already started losing its shine also.
- Saket Kapoor:** Okay sir what is the price if you give the price bracket for the last quarter, how the prices have been?
- Prakash P. Chhabria:** No, prices of that do not change like UPVC.
- Saket Kapoor:** So that has remained in that band of \$4,000 but there will be?
- Prakash P. Chhabria:** Going ahead during the next 12 months one can see a lot of changes.
- Moderator:** Thank you. The next question is from the line of Parag Thakkar from SVS Securities. Please go ahead.
- Parag Thakkar:** Sir, what do you feel about drip irrigation as an opportunity and what is your feedback on that?
- Prakash P. Chhabria:** Drip irrigation is good. We also have a company where we have investment in drip irrigation but the only issue comes up with drip irrigation, which is like a trap.
- Parag Thakkar:** Working capital?
- Prakash P. Chhabria:** Yes, so and we can see in many companies whose balance sheets are published being in so much trouble. So unless you are not conservative and you want to take those kind of risks which we will never take, we do not believe in taking risks. And it is a good business but under control anything is good.
- Parag Thakkar:** So opportunity size is huge?
- Prakash P. Chhabria:** Opportunity size is huge but again when we say huge is not tomorrow morning again. It spread out for years. Even if I go and announce something like this is going to happen, it is not going to happen tomorrow morning. It will take years. And there are enough players in the market today enough means more than enough players.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Hi sir, this is Ritesh here again. Sir, you did indicate that net debt can reduce by around Rs. 150 crores to Rs. 200 crores every year. So what are your thoughts on the dividend policy incrementally given land bank has one option that you always have to do away with the entire debt which is on the balance sheet. So how should one read into it if this event occurs would it

be a one-time dividend or are you looking at a higher dividend payouts in the years forward?
So what is your thinking over here?

Prakash P. Chhabria: Ritesh, let the land bank get over then we can talk about it. But if you see as a company our dividend giving out policy has been very clear. In good times or bad times, we have always been there for our investors. So similarly, when that land bank deal happens, again I do not think Finolex management is one which will not be generous in what they do.

Ritesh Shah: Okay and sir secondly by FY18 month end we can look at 350 KT of capacity, is that right? Because in the earlier question you have mentioned 40% increase. So would that number be okay around 350 KT increase every years?

Prakash P. Chhabria: Correct.

Ritesh Shah: And sir lastly, on the warehousing front. When we look at the competition, they are going pretty quick on setting up new warehouses. Do you think we are going slower here or how would you read this?

Prakash P. Chhabria: No, we are not going slow. We did start on time, we did everything but like I said, our existing contractors or our old contractors who are not up to the mark and therefore we had to change them. So when you change between old and new, there is a small period of disturbance always. So we are just playing through that disturbance and by 1st March I think we think should be okay again.

Ritesh Shah: And sir, just I do not know if this question will make sense or not, but out of the total revenues that we have once we have six warehouses in place, what percentage of our revenues would be through sales via warehousing growth? I am more looking at it from a lead-time benefit for the dealers and hence basically it can increase the throughput, basically it reduce the channel time?

Prakash P. Chhabria: See our Cuttack warehouse has given us a good increase as compared to last year. I am talking about Cuttack because it has been there for a longer time as compared to the other two. So keeping that same philosophy in mind and just keeping the philosophy that warehouses will improve the efficiency of service to the customer, that is the philosophy.

Ritesh Shah: But sir, would it be possible to quantify how much is the tonnage holding capacity or the amount that we churn every year from a particular warehouse?

Prakash P. Chhabria: No, I do not have those details right now. And sorry just to complete your point. Once this GST happens, and it is not necessary for GST to happen in the Budget, it can happen post Budget also, any time. That will also streamline a lot of processes within the company for higher efficiency, just the paper work and everything. So that itself will increase the speed of bringing the product up to the customer. All those things will make a difference.

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

- Maulik Patel:** Sir, you mentioned about this CPVC becoming a commodity. Can you tell us from where the supply is coming up and you said that in next 9 months there is going to be a huge supply of CPVC so the prices can come down in line with now what the prices of the PVC has come down?
- Saurabh Dhanorkar:** See internationally and domestically new capacities are coming up. Domestically if you see DCW is putting up a plant which is getting ready so over the next financial year that will definitely happen. Internationally Sekisui is putting up a plant, Kanika is expanding capacity. So availability of CPVC is increasing. Again there are lot of plants coming up in China, though as Finolex we do not use Chinese resin but a smaller players will start using Chinese CPVC resin. So that premium on the CPVC as a product and the pricing power is likely to go down because of more availability.
- Maulik Patel:** This DCW you are setting up with Arkema and earlier we used to buy CPVC from Arkema, so we want to shift to the Arkema, how is this like the DCW?
- Saurabh Dhanorkar:** Yes because today the quality it is going to be the same. But once we test it and once we are happy about it and we already had discussions with DCW on this front, which we cannot disclose now. So as long as it is Arkema product where it comes from is going to be immaterial.
- Maulik Patel:** Okay sir, is the DCW is going to manufacture both the CPVC resin and the compound, right?
- Saurabh Dhanorkar:** Yes.
- Maulik Patel:** Okay and they will supply just the compound?
- Saurabh Dhanorkar:** Sorry?
- Maulik Patel:** The DCW will supply compound directly?
- Saurabh Dhanorkar:** The compound as well as CPVC. It depends on what we want.
- Maulik Patel:** Okay so there we have an option to either go for the compound or the resin, either way?
- Saurabh Dhanorkar:** Yes.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Capital. Please go ahead.
- Vipul Shah:** Once you reach the pipeline capacity of 350,000 what percentage of PVC resin will be used internally means will we ever stop selling out PVC to outside?
- Prakash P. Chhabria:** It can happen any time but what we do is we also try to see arbitrage. So therefore it is just a commodity so I really do not focus that much whether it is internal or external.

- Vipul Shah:** Okay so for Baroda you may buy and for Ratnagiri you may sell. Have I understood it correctly, sir?
- Prakash P. Chhabria:** Exactly.
- Moderator:** Thank you. The next question is from the line of Hemang Kotadia from Anvil Shares and Stock Broking. Please go ahead.
- Hemang Kotadia:** Yes sir, any of our pipe volume was affected because of the Chennai floods in third quarter?
- Prakash P. Chhabria:** Yes, Tamil Nadu did cause the demand for Tamil Nadu was down.
- Hemang Kotadia:** So can you please classify the percentage?
- Prakash P. Chhabria:** Percentage I will not have right now with me.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak:** Sir, just wanted to understand can you get some sense on the revenue split across geographies in North, South, East and West, where we had highest growth and where we had seen laggard kind of a growth?
- Saurabh Dhanorkar:** See growth wise, on a much smaller base we have had the best growth in East of course because now we are focusing on that. And East growth is upwards of 30%. West also has shown growth. But overall we remain at about 40%, 38% to 40% West. Similar number for South. About 20% for North and as I said East on a smaller base we are growing high. Otherwise the rest of the market the growths are between 8% to 15%.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Just one question, broader industry level question. There have been recent reports stating that imports of plastic processed products have been hurting the domestic industry. So is pipes segment which is being also hurt or how do you look at it given the logistic cost will be significantly higher on a percentage basis?
- Prakash P. Chhabria:** Ritesh, you are answering my question already.
- Ritesh Shah:** Okay so it is not a segment that we are impacted by?
- Prakash P. Chhabria:** No chance.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from IDBI Capital. Please go ahead.

- Umesh Patel:** Sir, what was the CPVC revenue contribution in this quarter?
- Prakash P. Chhabria:** Sorry how much was the?
- Umesh Patel:** CPVC revenue contribution was how much during this quarter?
- Anil Whabi:** See in terms of value this was about Rs. 15 crores in the quarter.
- Umesh Patel:** How much sir?
- Anil Whabi:** Rs. 15 crores.
- Umesh Patel:** In terms of volume?
- Anil Whabi:** And in terms of volume this was about 800 tons.
- Umesh Patel:** And what was it for the 9 months?
- Anil Whabi:** Rs. 41 crores in value and 2,200 tons.
- Moderator:** Thank you. The next question is from the line of Kaushik Dani from Karvy Stock Broking. Please go ahead.
- Kaushik Dani:** Basically I was just looking to the PVC-EDC delta and what I noticed was that in the second quarter FY14 and last quarter of FY15 our delta was as high as \$700 per metric tons. Could you just give some attributes as to, is there any possibility of such delta getting re-achieved in future and what could be the parameters for the same?
- Prakash P. Chhabria:** The delta is like I said earlier also these are all variables and very floating. And what we look at is a particular date but that particular date is only is not relevant in real life because you are buying and selling daily. You are buying raw materials may be once a week, once a fortnight, but whereas you are selling daily. So what you do is you just average it and then you look at the international price and you make a graph. But if you look at the delta for the company as a whole, it has been increasing it is winding. Certain times it has to narrow because again like I said cyclical it has to narrow. So the spread which it has reached right now is something which the company is very comfortable in. We obviously want more we obviously want things to get better and better always. But this is a very good comfort level and all of this translates into cash flow and therefore if you see, our strong P&L is resulting into a strong balance sheet. We are able to reduce our debt.
- Kaushik Dani:** Okay but do we assume that this sort of margins or the deltas that we saw during those points of time they are like more of topped out?
- Prakash P. Chhabria:** No, you cannot say topped out in commodities. Why cannot it again happen, why not?

- Kaushik Dani:** Okay so that is what, so basically one or two factors that actually can lead to similar numbers on either side?
- Saurabh Dhanorkar:** See basically why we saw those surge in deltas during those peaks if you are seeing the chart that is when new capacity came up and that is why suddenly there was a sharp drop in EDC prices and the delta shot up. What is happening currently is not that all that new capacity is actually produced. People especially in the US are controlling production, so that the delta does not or the prices do not come down too sharply. As long as they are able to do that and able to sustain that, yes, as. Mr. Chhabria said 550, 570 these are deltas which we can definitely look at. The day they buckle up, then the for that time the delta can shoot up, but it really depends on their staying power and these are all big companies. So very difficult to predict what they will do.
- Moderator:** Thank you. We will take the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just wanted to check what is the current price of VCM?
- Saurabh Dhanorkar:** \$615 per ton.
- Kashyap Pujara:** And lastly would you be able to just give us an idea as to what is the performance of Finolex Plasson in the last 9 months how has that been versus the same period previous year and while I understand the opportunity might be very large and long term, but are we basically seeing some improvement in the key metrics in terms of revenue profitability so if you can just give us some sense there?
- Saurabh Dhanorkar:** Frankly we do not have the numbers as yet because I do not think they have finalized the budget yet.
- Prakash P. Chhabria:** But to give you a hint, what we can say is that their offtake this year has been better than last year. So that itself is a good sign.
- Kashyap Pujara:** Correct and that should go hand in hand with the way pipes are getting sold in the agriculture side at the current moment?
- Prakash P. Chhabria:** Correct.
- Kashyap Pujara:** Okay and just one more point would be about do you see any near term plant maintenance shutdown for our PVC plant?
- Prakash P. Chhabria:** I am foreseeing maybe but not really.
- Kashyap Pujara:** So essentially we will not lose because I think two years back there was a plant shutdown I think a year back or so. So just wondering if there would be in the near term any maintenance shutdown that would be required?

- Prakash P. Chhabria:** Not really.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from IDBI Capital. Please go ahead.
- Umesh Patel:** Just wanted to check with you I think the PVC-EDC delta spread is the lowest in past 11 quarters, right?
- Prakash P. Chhabria:** 11 quarters?
- Umesh Patel:** Yes, from April 2013 to the current quarter if I am not wrong?
- Saurabh Dhanorkar:** See again as Mr. Chhabria said, if you are looking at the chart, that shows on a month-to-month basis, the prices international prices and of the PVC international prices of EDC. So these are only the market prices. For us since we have bought a month or couple of months in advance, the actual delta will be slightly different which is currently around 550, which is the same as it was in the last two, three quarters. So it has been more or less steady. But those peaks as somebody asked earlier, the 675, 700 those are not seen right now. But we are happy with these current deltas.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Milan Bavishi for his closing comments.
- Milan Bavishi:** Thank you everyone for participating in the call.
- Moderator:** Thank you, members of the management team. On behalf of S-Ancial Global Solutions, that concludes this conference. Thank you for joining us and you may now disconnect your lines.