



“Finolex Industries Limited
Q3 FY2022 Earnings Conference Call”

January 27, 2022



**ANALYST: MR. RITESH SHAH - HEAD MID-MARKET COVERAGE,
AND ESG - INVESTEC INDIA**

**MANAGEMENT: MR. SANJAY S. MATH – MANAGING DIRECTOR -
FINOLEX INDUSTRIES LIMITED
MR. ANIL V. WHABI - DIRECTOR FINANCE AND CHIEF
FINANCIAL OFFICER - FINOLEX INDUSTRIES LIMITED
MR. NIRAJ KEDIA - DEPUTY CHIEF FINANCIAL
OFFICER - FINOLEX INDUSTRIES LIMITED**



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Moderator:

Ladies and transman good day and welcome to the Q3 FY FY22 Earnings Conference Call of Finolex Industry limited 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 are after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and zero on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah, Head Mid-Market coverage, and ESG. Thank you and over to you, sir.

Ritesh Shah:

Thank you, Rutuja. Welcome all for Finolex Q3 conference call. I trust you and your families are fine and safe. We have with us from the management Mr. Sanjay Math, Managing Director, and Mr. Anil Whabi, Chief Financial Officer and Mr. Niraj Kedia, Deputy CFO. I would request the management to start with the initial commentary, post which we will have a Q&A session. Over to you Math Sir, thank you so much.

Sanjay S. Math:

Thank you Ritesh. Good morning, ladies and gentlemen, and hello everyone. We welcome to the investor conference call to discuss Q3 FY 22 earnings release. Thank you for your continued interest in Finolex Industries limited. Before we start, let me wish you all a very happy new year 2022 and hope everyone of you and your families are keeping safe. PVC prices reached historic high over last year. However, there has been substantial volatility in PVC prices in last few

months. After a short period of correction mid-last year, the prices again went up sharply, but in the last couple of months, the PVC prices have come down by roughly 20%. In dollar terms, PVC prices are currently around USD1,500 levels down from the high of USD1,900 levels, three months ago. The PVC to EDC delta has also reduced from USD 980 levels, a quarter IGO to roughly USD580 levels currently. Falling PVC prices had an adverse effect on PVC demand sentiment in general, in addition to the falling PVC prices, various parts of the country witnessed torrential rains during the third quarter, these factors together resulted in a lower than expected demand, especially on the agri side. On the real estate and construction segment, the demand was good, but there is a supply constraint of additives and raw materials, mainly due to logistical constraints on container shortages and some foreclosures. The demand is expected to improve with the season opening up on agri segment and easing up supply chain bottlenecks.

Let me give you some performance indicators for the third quarter of financial year 2022. The highlights, total income from operations was INR1005 Crore for the quarter FY 22 down by 5.7% against the same quarter last year, INR 1,066 Crore last year. The volume in pipe and fitting segment reduced 15% to 46,994 metric tons against 55,299 metric tons last year's third quarter, EBITDA stood at INR 242 Crore for this quarter down 30% against INR346 Crore, same quarter last year. Profit after tax was at INR178 Crore for this quarter down 30% against INR256 Crore last quarter, this last quarter, sorry, the same quarter last year.



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Now getting into segmental performance EBIT in Resin segment was INR177 Crore down 28% versus last year. And EBIT in Pipes and Fittings segment was INR55 Crore down 40% versus last year. We continue to move in the direction of increasing non-agri in overall product mix. During this quarter, the agri to non-agri ratio was almost 60% to 40% by value and 65% to 35% in volume terms. This is in line with our target to have 60% to 40% agri to non-agri mix in the midterm. Let me open the floor for questions now. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, be press star and one on the touchstone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies answer, we will wait for a moment while the question queue assembles. The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal:

Yes. Hi, good morning. And wish everybody at Finolex Happy 2022 as well. So three quick questions, firstly, how is the situation in January, you know, what is your reading in terms of January inventory? How does 4Q look like? Will it recover the entire lost volume of 3Q and 4Q, anyway, is a strong quarter for you because of agriculture season, you know, picking up in terms of channel inventory any thought sir, how does it look like?

Sanjay S. Math:

I think the outlook in January is also not very bright. The agri sector has still not opened and the demand is subdued. So, the pipe demand has not yet picked up. I think hopefully it'll open up February after the budget. This is what we feel. It's only about a week's time now. So from then on, I think we should have some impetus to revive demand.

Rahul Agarwal:

What could be the reason, as in COVID wave three, is that the reason or generally because PVC is still volatile, is that the reason in your sense, what is the reason for pipe not picking up on the agri side?

Sanjay S. Math:

I think there are two reasons yet we can just predict upon. One reason is that people still feel that there is a price correction going to happen. Now, one aspect that is there that the anti-dumping duty for US as China will be removed in February. So whether there will be some correction coming on PVC prices, this is one reason that people may be betting on that any price correction is possible. That is one. Secondly, still the agri sector has still not open. I think there is rain still going on in some parts of the country, and that has also subdued the demand for agri sector. Whereas we see that the non-agri sector is definitely doing better over the period in this year, quarter-on-quarter, as well as on the year-on-year, I think a non-agri sector has done better for us. But the volume compared to agri is lower. That is why it doesn't reflect into a total volume. I think going forward, we see that by mid-February, at least the agri sector has to definitely open. So in this quarter, I think we will get somewhere



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around one and a half months to, so as a good demand coming for the next quarter.

Rahul Agarwal: Got it Sir. Sir secondly any progress on the land sale and decisions on utilizing this cash for buy or dividend, what is happening there?

Niraj Kedia: So land is status quo. We are in, it's in process. So it's not a very quick thing, it doesn't happen very quickly because there are modalities involved. So we are in the process of completing the transactions. It's not one transaction, but a few of them. So that will take its due course, but we hope to close at least some bit of it before March of this year.

Rahul Agarwal: Sir, on a full basis. September is a good time to look forward for that INR700 Crore INR750 Crore to come in?

Niraj Kedia: Let's see, let's see how it pans out. I cannot comment or commit for September as of now, but some part will definitely see before March. That's the take as of now.

Rahul Agarwal: And, thoughts on dividends or buy to utilize this cash, anyway we are surplus today also?

Niraj Kedia: Yes. So, that will be evaluated it and we'll take a call soon on that as well.

Rahul Agarwal: Okay. And lastly sorry, if you could help us with CPVC volume and revenue for third quarter and nine months, that will be helpful. Thank you so much.

Niraj Kedia: So CPVC volumes, for three quarter for Q3, right?



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- Rahul Agarwal:** Yes. 3Q and nine months please.
- Niraj Kedia:** Yes. So roughly 3,300 tons was for Q3 and roughly 9,400 tons for the nine months.
- Sanjay S. Math:** Top line is INR125 Crore for three months and INR 340 Crore for the nine months.
- Rahul Agarwal:** Thank you so much, Niraj. And thank you team. All the best I'll come back in the queue.
- Moderator:** Thank you. The next question is from the line of Chirag from HDFC Asset Management. Please go ahead.
- Chirag:** A few bookkeeping questions from my side, if you could help with what PVC EDC, Ethylene and VCM prices were in the third quarter versus the third quarter of the previous year. And what are they at the moment?
- Sanjay S. Math:** I think third quarter this year, EVC USD 1,753 last year was USD 1235. EDC this quarter USD959 and last quarter was USD470. Last year, third quarter.
- Chirag:** Sorry was four hundred and?
- Sanjay S. Math:** USD 470 last year, third quarter.
- Chirag:** USD470. Yes.
- Sanjay S. Math:** Okay. Now PVC to EDC delta this year third quarter is USD795 last year was USD765.
- Chirag:** Sure.



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Sanjay S. Math: And PVC to VCM Delta.

Chirag: Also tell me the Ethylene and VCM prices this quarter and previous quarter.

Sanjay S. Math: VCM price is USD1403 this quarter and last year was USD960.

Chirag: And Ethylene sir?,

Sanjay S. Math: And?

Chirag: Ethylene.

Sanjay S. Math: Ethylene USD1068 this quarter and USD843 last year.

Chirag: And so what are the current prices for all of these at the moment?

Sanjay S. Math: Current prices, PVC is USD1500, EDC is USD920, Ethylene USD965 and VCM USD1210.

Chirag: So what were fitting volumes and value this quarter?

Sanjay S. Math: Fitting the volume fitting volume this quarter is 6,121.

Chirag: And value?

Sanjay S. Math: I think Niraj, do you have value?

Niraj Kedia: Yes. So fitting is roughly INR 200 Crore.

Chirag: Right. So the last question for my size. So there's obviously been lot of volatility in PVC prices and spreads. So two

questions, Sir. So one is that you know, considering that prices have fallen quite recently is there a possibility of an inventory loss in the fourth quarter and where do you see margins settling in at, for an average for, let's say going forward next year, following year, what is a reasonable number to work with?

Niraj Kedia:

Yes. So in terms of inventory loss, we don't see so much of it. So it all depends how this PVC prices move. Obviously, if there is a reduction, sharp reduction in PVC prices well, the margin will be adversely impacted, but that remains to be seen. On a going forward or regular basis, see. There's always a time lapse. What we saw last year was that PVC prizes went up sharply. Whereas the raw material prizes, they took time, it took them some time to inch up. Now when the reverse happens, the same thing is likely to happen as it happens anywhere else. So it'll depend on how big the lag is. Generally it is not very long, but on a maintainable basis, as we are saying, INR10, INR12 per kilo, that is the main margin in a long term.

Chirag:

INR10, INR12 a kilo in resins?

Niraj Kedia:

No in pipes and fitting.

Chirag:

No, sir. What I meant in resin where do you see this margin over a period of time which is roughly 40,000 per ton this quarter, where do you think that can eventually settle in that?

Anil V. Whabi:

Chirag for PVC resin you are aware that it's difficult to say, where will it end up? It all depend as Niraj said on this.

- Chirag:** Fair point sir. Okay. Thank you.
- Moderator:** Thank you, next question is from the line of Praveen Sahay from Edelweiss Financial. Please. Go ahead.
- Praveen Sahay:** Yes. Thank you for taking my question. Just on the fitting revenue, how much you said just to be sure.
- Niraj Kedia:** INR 200 Crore.
- Praveen Sahay:** Okay. Okay. So my question pertaining to the demand side as in the last call also you had highlighted that the last two season for the agri where a very subdued demand. And now we are in the third season and still, like the third quarter we are tossing on some are other reason rain -- So what's your commentary now, like whether the farmer will further, even the prices were on the, fluctuating or the higher side. Do you believe this deferment will continue or really we, this demand to pick up you know, in the coming season.
- Sanjay S. Math:** I think last two years we had torrential rain and extended monsoon also, and that has definitely affected the demand on the pipes. Last year also, it was very late opening up of the sector. I think almost it was not as good as the earlier ones, even though the economy has picked up in the third and fourth quarter of last year, still the demand for agri never opened up, to the it was their pre-pandemic. I do not see that it is because of the pandemic that has happened, but it is basically because of the rain, untimely rain that has happened. That is one reason. There is a reason to believe that the high prices also might have affected some demand.

Although we can't really quantify that, but there is a possibility that high prices also could be affecting the demand. So that is where they are waiting on prices to maybe soften out. So the demand for this year may picking up only by the second harvest, maybe by mid of next month, we should be seeing some demand growth.

Praveen Sahay:

So, on this some consumer companies are highlighting the rural slowdown will continue will what's your view on that? This rural slowdown is continuing and that's not going to get some pick in the agri pipe.

Sanjay S. Math:

So I think we generally, we don't talk about economic slowdown although the numbers show that the GDP is going to grow by 9%. Agri also will be growing by 4% or so. So that doesn't speak and it does not get reflected into the demand of pipes. So these two are still not related so much, whether there is an economic slowdown or it is not -- the sector itself is not showing some demand.

Praveen Sahay:

And also you had highlighted related to the plumbing segment has done good for you for this quarter. How much is the contribution for this quarter Plumbing?

Sanjay S. Math:

Non-agri we have 60% to 40% by value and 65% to 35% by volume. So that's picked up to that extent.

Niraj Kedia:

Just to clarify it is the other way round, I mean, agri is more than non-agri.

- Praveen Sahay:** Yes. Yes. So in the, in non-agri CPVC volume has not done anywhere if I look at a sequential. So like PVC side, it's done very well, in non-agri.
- Sanjay S. Math:** I think CPVC has done very well. Over the last year, it has grown by 57% for the nine months period. And over the pre-pandemic year, I think it has grown by 32%. So this nine months CPVC has grown better. So this is one in the non-agri sector, which has done better.
- Praveen Sahay:** Okay. Just to clarify, sir, how much was the volume the third quarter last year CPVC.
- Niraj Kedia:** 3,400 tons this quarter.
- Sanjay S. Math:** 3,300 is this quarter, but last year was I think 3,600.
- Niraj Kedia:** No sir, last year was 3000 tons..
- Sanjay S. Math:** 3000 tons, Yes, Yes. 3,000 tons.
- Niraj Kedia:** So if you see QonQ it is 3000 -3,340 but on nine month basis, last year was roughly 6000 and no is roughly 9,400.
- Sanjay S. Math:** Correct. Correct. Correct.
- Praveen Sahay:** Thank you, sir. Thank you for taking my question. All the best.
- Moderator:** Thank you. The next question is from the line of Sonali from Jeffrey. Please go ahead.



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- Sonali Salgaonkar:** Sir, thank you for your opportunity. So my first question is the split between Agri and non-agri in terms of the pipes volumes. So when we talk about 15% year-on-year dip in Q3, how much would be the dip and agri versus non-agri?
- Sanjay S. Math:** You want only pipes or fitting separate?
- Sonali Salgaonkar:** No, no both pipes and fittings.
- Niraj Kedia:** So Agri in terms of volumes, QonQ we are down by 24% and non-agri is in fact slightly higher actually by 4%.
- Sonali Salgaonkar:** Sorry, sir, could you repeat that?
- Niraj Kedia:** Non agri is higher by 4%.
- Sonali Salgaonkar:** Okay. Got it. And similar figures for year on year please?
- Niraj Kedia:** Agri is down 5% and non-agri is up 30%.
- Sonali Salgaonkar:** Understand. So within non-agri that's mainly plumbing, are we seeing traction from both rural and urban, or is it more of an urban centric phenomenon?
- Niraj Kedia:** Typically plumbing, sanitation is more urban, right?
- Sonali Salgaonkar:** Right. So urban is the key driver for our non-agri volumes?
- Niraj Kedia:** Urban and semi-urban. Yes.
- Sonali Salgaonkar:** Right. Sir and also, you mentioned in the opening remarks that in the long term, you would like to increase your non-agri to about 40% of your overall mix. So what are the key



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steps that we are taking in this direction in terms of either increasing the distribution or the SKUs, and also related question, what are our SKUs right now?

Niraj Kedia:

So you are right. One of the steps in that direction is to have a broader SKU range. Now we are almost there actually in terms of SKUs when it comes to non-agri. So in total, today we have roughly 2,200 SKUs of which I would say non-agri are roughly 1,250. So 1,200, 1,300 SKUs in non-agri. So that is one step. And also on the distribution chain as you rightly said, there is focus. See last one, one and a half years because of this pandemic, obviously there was some slowdown in appointing new dealers and reaching out to new markets because of all the constraints, but the idea is to have a wider distribution network in the urban and semi-urban areas and reach the market in such a way that there's more penetration in these areas.

Sonali Salgaonkar:

Sir, so which are the key markets that we are targeting.

Niraj Kedia:

There is no specific market as such. So there are markets where we are strong, so that impetus is there to maintain that leadership in those markets, they would be mostly your south markets and western markets. And obviously wherever we are not at the number one or number two position like -- so, that is where we would like to increase it. We would include some of the Northern markets, some of the Eastern markets.

Sonali Salgaonkar:

Understand. Sir and last question from my side, any guidance on CapEx because we were in a weight and watch mode for increasing our capacities, especially in pipes and secondly,



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any color on the current channel inventory that we are witnessing in January. That's it from my side.

Niraj Kedia: So when, in terms of CapEX on capacity front in pipes, we don't think as of now there is any major requirement because we are yet to reach the pre pandemic levels. So once, there is head room available there. There is an incremental CapEx which keep -- continuous CapEx, which is happening on the fitting side of it. So that is continuing to happen. And when it comes to channel inventory, as Mr. Math said, there's an anticipation that the prices would go down. So people are carrying very minimal inventory limits.

Sonali Salgaonkar: Right. Sir any quantum of CapEx that you want to guide?

Niraj Kedia: So INR 100 Crore is something that we have told earlier also.

Sonali Salgaonkar: Got it. Sir.

Niraj Kedia: That is the number right now.

Sonali Salgaonkar: Thank you.

Moderator: Thank you. Then next question is from the line of Udit from Yes Securities. Please, go ahead.

Udit Gajiwala: Yes. Hi, sir. Thank you for taking up my question. Just a follow up, sir, from the previous question, can you give the geographical split for the non-agri business?

Niraj Kedia: Geographical split is not readily available.

- Udit Gajiwala:** Okay. And just to clarify, the non-agri is 40% in volume, is that correct?
- Niraj Kedia:** Yes, No. 35% actually. Our target is to reach 40% on an annual level. See what happens there are quarters where agri because of the season, agri is lesser. So in those quarters, you would see a high non-agri contribution, but when you look at it from an annual perspective there, the target is 40% non-agri at least.
- Udit Gajiwala:** Got it. Got it. So rest are the questions have been answered. Thank you. Thank you.
- Moderator:** Thank you. The next question is from the line of Utkarsh Nopany from Haitong Securities. Please, Go ahead.
- Utkarsh Nopany:** Yes. Hi, Good morning, sir. Sir, I just need few data points if you can help me out. First is what is the fittings revenue in Q3 FY '21.
- Niraj Kedia:** FY '21?
- Utkarsh Nopany:** Yes, sir.
- Niraj Kedia:** INR 150 Crore.
- Utkarsh Nopany:** Okay. And how much CapEx we have incurred in nine month of FY '22.
- Niraj Kedia:** In FY '22 we would've incurred roughly INR50 Crore to INR60 Crore.



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Utkarsh Nopany: Okay. And we are planning to spend another INR40 Crore in this March quarter. Is that correct?

Niraj Kedia: Hopefully, yes.

Utkarsh Nopany: And what would be the CapEx guidance for FY 23?

Niraj Kedia: Similar levels.

Utkarsh Nopany: Okay. So we are not planning to increase the capacity in FY '23 am I correct.

Niraj Kedia: No, as I said, when it comes to pipes, there is already head room available. We had done roughly 250,000 tons before pandemic hit us and we can reach that level. So to that extent on pipes, there is already capacity available. Once we reach near at those levels, then we will be adding capacities, but adding capacities is not very difficult or not very costly in our business. You can always add capacities in modular level.

Utkarsh Nopany: Okay. Fine Sir, and how many new SKUs we are planning to add, say over the next 15 month period, say by March '23.

Niraj Kedia: Sorry?

Utkarsh Nopany: How many new SKUs we are planning to add, say by March '23?

Niraj Kedia: March '23. See, I can't answer, put a number to that right now. Cause this is a continuous process. There are a lot of SKUs in various stages. Once an SKU is introduced, there are many things which happened before that, some update study



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designing and all of that. So there are SKUs in lineup. I can't give you a number. How much would that be?

Utkarsh Nopany:

Sure, sir. And so lastly like if we see over the last eight quarter, your average EBITDA per KG hundred for the pipe division is close to around INR12.5 per kg where we have not seen much of volume growth, we have seen a negative operating leverage. So if we are anticipating good volume growth, then why we are being conservative on our guidance that we are still maintaining the same outlook of INR10 to INR12 EBITDA per unit.

Niraj Kedia:

Sorry, I didn't get you?

Utkarsh Nopany:

Sir if we see over the last eight quarter period, our EBITDA per unit for five division is around INR12.5 per KG, where we have not seen the benefit of operating leverage as our volume is in a negative territory. So going forward on the guidance earlier, you had just made the comment that we are still looking for INR10 to INR12 per kg, kind of for guidance for the pipe division. So just wanted to know why we are so conservative in our guidance. Is it because that we are anticipating the agri pipe contribution to start moving up? So our EBTIDA per unit run rate is likely to go down?

Niraj Kedia:

See when this mix also changes, you may say that we are slightly conservative, but that is the maintainable margin going forward also.

Utkarsh Nopany:

Sir, I am still not getting the point because at one side we are saying that we are planning to increase our non-agri sales

volume mix to 40%. That is our medium term goal. And on the other side, we are saying that like the current run rate of INR 12.5 looks to be a bit not sustainable. It is likely to go down.

Anil V. Whabi: What we are saying is INR10 to INR 12 is maintainable. That's all we are saying.

Utkarsh Nopany: Okay. Thanks a lot, sir.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak. Please go ahead.

Bhargav Buddhadev: Yes, good morning, team. And thanks for the opportunity. I just wanted to know what has been the increase in the advertising and marketing spend because, advertising spends for Finolex have been rising and also wanted to know whether these spend are going to increase or sustainable in nature.

Niraj Kedia: See our advertising spends are roughly between 1% ,1.5% of the top line, and that will be something which would be maintained.

Bhargav Buddhadev: And what was this earlier?

Niraj Kedia: It has been in the same range. Obviously in the pandemic year, the activities were lower, but otherwise one, 1.25% is the numbers that we seek for.

Bhargav Buddhadev: And secondly, in terms of CPVC, have you taken price hikes in the last three to four months?

- Niraj Kedia:** There was one small correction that happened, but nothing major.
- Bhargav Buddhadev:** And from here on do we expect price hikes or you think prices will be more or less in this range?
- Anil V. Whabi:** No. See the cost also have been going up for CPVC inputs. So obviously with that, the prices will change.
- Bhargav Buddhadev:** Okay, and I heard, right, right. But there was a price cut in CPVC in the third quarter?
- Anil V. Whabi:** No, no. There has been price rise in CPVC. There has been shortage of material and there have been price hikes.
- Bhargav Buddhadev:** Is it possible to quantify that?
- Anil V. Whabi:** No that, see, it depends from supplier to supplier. Each supplier has quoted their prices, but generally the prices they moved up in the third quarter.
- Bhargav Buddhadev:** Okay fine. Thank you very much for the clarification.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.
- Chirag Lodaya:** Yes. thank you for the opportunity. A couple of questions from my side. So, so first on this PVC volatility, as you mentioned, there have been substantial volatility in last few months. If you can help us understand what is leading to this volatility, is it increased import from China or it is something else which is leading to this kind of volatility.

Sanjay S. Math:

This volatility in general, is overall international market prices are changing. It is not only the Indian market prices are there. I think there has been correction in China, also. I think China presently is about USD1,300. The south Asia is the highest level of PVC prices between India, Pakistan and the nearby area is about USD1500 - USD1550. Now China at present does what anti-dumping duty for India. So that may be going in month of February. So that is where the volatility is still expected that maybe there is a softening of PVC prices, which we will come to know in next two, three weeks.

Chirag Lodaya:

Right. Right. No, but this volatility is to do with increased production, lower demand. Is there any global phenomena which is, you know, causing this volatility?

Sanjay S. Math:

I think there is a trade only in -- within the region. there is a problem coming up for the rate as well as containers' not availability. And that has restricted even the supply chain on raw materials. The imports coming to India are still not to the tune of the earlier ones. And they're running somewhere around 1 Lakh tons to 1.2 Lakh tons which is normally about more than one like 1.5Lakhs 1.6 Lakh tons. So there is some short on the supply from inputs. Domestic suppliers are anyway running the plants to their capacity. So that demand assets is running somewhere matching the production only. This is a phenomena, which is still, people have not seen that there is a pickup in total PVC demand all across.

Chirag Lodaya:

Right. And then what is the quantum of ADT today? Is it 10%?



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Sanjay S. Math: For US and China there are different rates, they are -- in terms of dollars they have given.

Chirag Lodaya: And what would be that roughly in percentage terms range?

Sanjay S. Math: Yes. About 8%, 10%.

Chirag Lodaya: Got it, got it. Then my second question was on volumes for agri as well as non-agri. So if you can just split agri versus non-agri volumes for first nine months, that would be helpful.

Sanjay S. Math: Just hold on. I don't have those numbers like separate agri and non-agri.

Niraj Kedia: So agri in terms of volumes for the nine months was 1 lakh tons, non-agri was 55,000 tons

Sanjay S. Math: Versus last year.

Niraj Kedia: Last year was 1 lakh 10 thousand. And 42,000 tons.

Chirag Lodaya: And in terms of profitability, sir, when you say 10% to 12% is a long term maintainable number. But if I just want to understand in terms of, non-agri profitability versus agri how that would translate into this?

Niraj Kedia: That would be difficult to say. Because see, one thing we must also understand while we also say agri, non-agri, there are various parts of the country, for example, some of our own markets in north, especially lot of our agri products are used for non-agri applications. So then this bifurcation or differentiation between agri and non-agri becomes very

difficult. So while, you ask and we provide these numbers not necessarily they are absolutely purely used for agri and non-agri.

Chirag Lodaya:

Right, right. And in this quarter we have seen, you know, impact on our PVC raising external demand. So that has to do with this volatility, right. I mean, there were, you know, people would've postponed purchases and that would've led to this decline in volumes absolute volumes, right.

Niraj Kedia:

Yes. Yes.

Chirag Lodaya:

And do you expect that to recover in coming months, once things, you know, get clear, post budget.

Sanjay S. Math:

See once prices stabilized, then things will become better or more clear, see when prices are falling. And especially how they have done in the last couple of months, Then it's like, catching the falling knife. Everybody wants to catch the knife, once the edge has passed. So that always plays in the minds of people or the consumers or the dealers. So once there is stability, we will see, we hope that the demand will be back.

Chirag Lodaya:

Got it. All the best sir. Thank you.

Moderator:

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

Ritesh Shah:

Yes. Hi sir. Thanks to the opportunity. Sir couple of questions. One is inventory at the company level is definitely high. Would it be possible for you to split it up between pipes

and fittings and resin, That is one. Secondly what is a normal inventory in the channel, how many days versus how much would it be right now? Just trying to understand, there has been a big element of channel destock, if normalization happens, then what sort of volume growth actually automatically it'll reflect on the basis of channel restock?

Anil V. Whabi:

Ritesh, the inventory, breakup. I don't think we have it readily available.

Ritesh Shah:

Okay. No worries, sir. And sir, how should, one read the channel destocking, what sort of inventory does a channel carry? How much would it be right now?

Anil V. Whabi:

Channel today because of this volatility in prices is carrying very low inventory levels. So they generally dealers pick this material only when they see the visibility of orders. Channel inventories at present are very low.

Ritesh Shah:

Okay. but sir, if we look at the numbers on the non-agri side, if I heard it right, you indicated 30% year-on-year volume growth. Was that number, right?

Niraj Kedia::

So 30% was compared to FY '21, nine months.

Ritesh Shah:

Okay. Okay. Sure. Sir my second question was, Math sir, indicated that there were supply constraints on additives other goods. So just wanted to check any specific additives, which is a problem, which is probably can help organize sector given that sourcing will be better. That's one, secondly, was



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CPVC sourcing a problem in the quarter. And how is it, how should we look at it incrementally?

Sanjay S. Math:

See there are certain additives which are -- which are required for processing of the PVC pipes. These additives somehow are not available. Some of the companies in Europe or in US have closed down, there are certain container problems. So the availability been restricted. The only alternative is to look at domestic suppliers and try out the new suppliers, so we are in that process, that continuously we are looking at alternate suppliers on various additives. Now, some of the additives which I can talk about is -- stabilizer, or maybe high impact modifier, or maybe some polygreen waxes, or even the ClO₂ coming from Cronos. These are some of the additive's which are, which are in short supply, they're getting delayed. So the delivery times are getting longer and longer because of some of the reasons of the transportation and the logistics. This definitely put pressure on us. We have been able to manage with alternate sources and maybe domestic supplies also.

Ritesh Shah:

Right. And sir, on CPVC side.

Sanjay S. Math:

On CPVC, also, there are certain constraints on supply but we have been again, broad basing our suppliers. So the basket of suppliers is also increasing and we are able to maintain our CPVC supply chain so far, so good. We hope that the logistic problems will ease out and more free trade will happen, particularly on CPVC resin.



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- Ritesh Shah:** Right. Sir, what I wanted to understand, is it a supply, supply problem or is it a logistic issue on the CPVC side?
- Sanjay S. Math:** The supply constraints, maybe their capacities also at present that are getting limited.
- Ritesh Shah:** Okay. Okay. Sure. And just one thing you indicated on US, China, anti-dumping duties, you indicated on 8% to 10% is there any affirmative timeline by when we will actually hear something on this from DGTR or can it keep on lingering for little longer? Like, is there an end date, three year or a five year tenure where this particular duties expire? Sorry for my ignorance over here, sir.
- Sanjay S. Math:** The duty is expiring next month. But it may be continued also, it is again a question mark.
- Ritesh Shah:** Okay, Sure. And sir one last question. Sir competition has been launching multiple brands under CPVC, this possibly it could be a function that unit economics might not be stacking up. Is it something which actually benefits for a brand like Finolex where in we are actually looking to grow aggressively on the non-agri side of things.
- Sanjay S. Math:** I think, you know, Finolex is an umbrella brand, it is not specific to only agri or non-agri. So it is basically a brand for pipes and fitting, and it is definitely a brand which talks of quality rather than on specific product. So it is not a product specific brand so far. So we like to see that the leverage of our brand value is extended to all products together.

- Ritesh Shah:** Sure, sir. And sir one last question did we go for discounting in the months of November and December to actually push volumes basically which probably held on the volumes, basically volume growth is negative, but it is not..
- Niraj Kedia:** No, nothing out of the turn normal keep on coming with schemes and all, nothing out of turn. Because in November demand itself was very low. So even if we would've given high discounts because there's no demand, what's the point.
- Ritesh Shah:** Okay. And nothing on credit as well. No change.
- Niraj Kedia:** No, primarily. No change.
- Ritesh Shah:** Okay. That that's very useful. Thank you so much.
- Moderator:** Thank you. The next question is from of Sneha Talreja from Edelweiss Securities. Please go ahead.
- Sneha Talreja:** Thanks. Thanks a lot for opportunity, sir. Couple of questions from mine, firstly, with got to CPVC, anti-dumping duty. There was a recently news on PVC flex films imported from China wherein, they have revoked dumping duty which was due this 31st of Jan. Is it something related to us or can we expect similar duty revoke happening in PVC resins also.
- Sanjay S. Math:** I think there are a lot of pressures coming from the processor side also that there is a general, demand coming up from the processors that the total general duty, which is 10% on PVC should be reduced. On the other hand, the domestic resin producers are also looking at that should not happen because already there are some FTAs which are affecting the margins

on the domestic producer. So between the two, you know, on one side, there are producers of resin the other side, there are consumers of resin between them the duty structure is decided by the government, I think at present, we have-- we see that it'll be continued to the level that its presently there.

Sneha Talreja:

Sure sir. And if it doesn't, would it mean that there'll be a direct cur in prices by around INR 10 or 10 odd percent given that you said that prices are hovering at around USD1500 and in China they're hovering around USD1300, is that understanding correct?

Sanjay S. Math:

China present is USD1300, but at the same time they have their logistical issues. It may not be that -- there will be a correction, even if it happens to about 5% or 7%, not more.

Sneha Talreja:

Okay, got it. Got it. And Sir second question was basically related to currently what are the prices in the grey market of PVC? Because for some time we were listening about a big gray market discount in the PVC market, with Reliance and, you know, Chemplast, and all of these companies in the domestic market had PVC prices in the range of, you know I mean they were already running a premium. So what's the current status, after this current price cut has the prices come in line with what they were running in the grey market or does it still at some level of discount?

Sanjay S. Math:

I think the grey market price are very volatile. Sometimes they're at premium, sometimes they're discount. I think we can't predict it like this. It all depends upon how much is the import material that is coming to the country. And if it is a

delayed, supposing somebody has ordered the material at higher price, and now it has come up for three months and the prices are corrected already. Then they dump it also because otherwise they carry huge losses. So this type of trading volumes, which are there, they decide the grey market. So depending on the actual availability of the free volume available in the market, otherwise domestic suppliers have got a steady production level and steady supply level.

Sneha Talreja:

One last question, which is again, related to some government notifications only, which is BIS norms. Any clarity there, at times we heard about getting it implemented at times it's completely ignored and not getting implemented. Any particular status. And what do you feel is the intention of the government here?

Sanjay S. Math:

The intention was that we must have a standard quality of the material that is being used in the country, whether it is from the domestic supplier or it is from the external suppliers. And there is a lot of grey material that comes up with the low quality stuff also in the country. And that affects the entire -- the pricing level. And that is why BIS Standard has been introduced so that everyone, whoever wants to sell a material in India must conform to a BIS standard. And this has been now implemented all the products, not even the PVC, but at the same time, this applies coming to the PVC manufacturers like EDC, VCM, all are now linked to BIS. So every product that has got a BIS standard and all these suppliers who are supplying it in the country, as well as the domestic producers must have a BIS license for these products. I think that is



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good. You know, that we also make something which is standardized. It's just like reach, European Union has a particular standard for every chemical that they use. The similar thing maybe happening that BIS is an only agency in India who can control the quality of materials, which are being used in India. And that is why this becomes mandatory for domestic suppliers, as well as the external suppliers.

Sneha Talreja:

Got it. Thanks a lot Sir.

Moderator:

Thank you. The next question is from the line of SM Kumar from an individual investor. Please go ahead.

SM Kumar:

Thank you for providing opportunity. We asking questions. So first question regarding how much cash available in our book.

Niraj Kedia:

Roughly, net cash of roughly INR500 crores.

SM Kumar:

Okay. So do we have any plan for inorganic acquisition in recent months, upcoming years?

Niraj Kedia:

So we are not closed to any opportunities, but there is nothing specific identified as of now.

SM Kumar:

Okay. So further regarding questions digital marketing. So what are the steps we have taken to improve our digital marketing through any social media platform, because nowadays most of farmers are using the social media. So do you have any strategic plan to improve digital marketing, any area on that?

- Niraj Kedia:** Yes, we do. In fact I would say we are pretty focused on digital marketing. We, we reach out to our customers and you're right, even in rural markets, digital is becoming the norm of the day. So we are actively pursuing digital channels, like the typical one social media, social interactions Facebook and all of that. So we have a team which kind of keep working on this.
- SM Kumar:** Okay. Thank you. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ashwin Agarwal from Akash Ganga Investments. Please. go ahead.
- Ashwin Agarwal:** Hello?
- Moderator:** Yes, sir please go ahead. You are audible.
- Ashwin Agarwal:** Sir, for my first question would be a book keeping question. So as we have hire consumption of -- internal consumption of PVC resins so how do we benchmark in terms of revenue and how do we book itself, like, can you just give some broad idea onto that?
- Niraj Kedia:** Sorry. My connection was lost. Can you please repeat that question?
- Ashwin Agarwal:** Yes. So as we have a higher internal consumption of PVC resins, and so I just wanted to understand how do we benchmark as a price because the price is so volatile. So how do we benchmark in terms of revenue as an in terms of our Finolex industry?

- Niraj Kedia:** So our internal transfer happens at market rates.
- Ashwin Agarwal:** Okay. So as on that, what we require we get at a market rate, right?
- Niraj Kedia:** Yes.
- Ashwin Agarwal:** So that will be the thing.
- Niraj Kedia:** Yes.
- Ashwin Agarwal:** Okay. And so my second question would be on this can you just give broad idea on EDC, VCM route, can you just give some, what is the ratio right now, what we are making in PVC resins so with this ratio?
- Sanjay S. Math:** From EDC route, we make about 60% and from VCM route, we make 40%,
- Ashwin Agarwal:** 40%, right?
- Sanjay S. Math:** Yes.
- Ashwin Agarwal:** Okay. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Hello? Hello?
- Sanjay S. Math:** Yes, go ahead.
- Niraj Kedia:** Yes we can hear you please, go ahead.

Vipul Shah: Yes. So my question relates to pricing of our CPVC products. So how do we, our prices compare in relation to the market leaders? Are we at what level of discount compared to market leaders?

Niraj Kedia: See I don't know, know who we are referring to when you saying the market leader, but we generally price basis our input cost and the margin that we want to keep. And there are some markets where the prices are, they're not really same everywhere, but depending on territory to territory, in some territories, we are slightly over priced some we are under priced, I mean, we have more pricing advantage. So it's difficult to say that, how much are we pricing. Because we don't price keeping any competitor in mind, we do our own maths, our own economics, and that's how we price our goods.

Vipul Shah: And regarding the sourcing of raw material for PVC we had an exclusive agreement with Lubrizol. So we are sourcing 100% from them, or we have multiple channels.

Niraj Kedia: We have multiple channels. We had a procurement contract with Lubrizol, but that we closed down last year in fact.

Vipul Shah: Okay, sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Aasim Bharde from Dan Capital Advisors. Please go ahead.

Aasim Bharde: Yes, good afternoon. Most of my questions have been answered. Just one question can you talk about the PVC

supply situation in China and the US just wanted to know that if theoretically dumping duties are removed, is there any free supply to come to India the next few months, which will force more PVC price cuts here.

Sanjay S. Math:

At present I think there is any supply coming from China, as well as US, the main suppliers presently are Japan because there is FDA. The next one is Thailand, Formosa from Taiwan, South Korea. So more or less except China, all Asia Pacific and some Southeast Asia people, even from Indonesia, Thailand, Malaysia, Philippines. Little comes from Europe. US is a long distance. Presently US, supplies to India are still limited. Even later on also, logistically it is far away from this. So we don't see much of problem from US, but China, yes. If China really gets opened up, whether they will enter the Indian market in more aggressive way, that is one, one possibility. At the same time, China capacity is 50% on carbide route. And so how that unfolds based on the environmental concerns which China has gone through and whether they will be releasing again, the carbide route to the level that they want. So China itself, if they don't go for the carbide route aggressively, they may not have much of surplus. So these are some of the uncertainties on the trade, which is coming from US as well as China.

Aasim Bharde:

Okay. So China is an option, but there are say, given dumping duties are removed Chinese supplies will flood into our market. And possibly, upset the pricing dynamics here. We can't just count on that just yet.

Sanjay S. Math:

I think sometime back China and Australia fell through their coal supplies and then China had to go for Indonesian coal, the Indonesian coal prices went up, then China also opened the internal domestic coal supplies. So this was some something which went on, but now I think the things are taking the reverse route. So we still do not know how that will unfold on the carbide route from China.

Aasim Bharde:

Okay. And just one follow up on this. So I think last year there was talk about the demand for PVC within China had also increased. Same for the US as well, and that's why they were not exporting from their own markets. Has that the internal demand for PVC has stacked up down, or have there been, I mean, like capacities were shut down on the carbide and those are possibly opening up. Hence they have surplus to export.

Sanjay S. Math:

I think China is such a close information market. Recently there were some lockdowns which are also, Shiyan and all those major areas. They were locked down. One or two ports also were closed down in China. So the trade also got affected from China. So there are certain things which are still unknowns on China. But at present there domestic productions are meeting their own requirements. There is hardly any surplus trade that has happened from China on this, but they are definitely. And CPVC, they are there. Some amount of PCV could be there, but it is still not on a very large scale. I think more worries are from the FTA's and those countries. Asia countries and Japan these are the countries where there a surplus PVC, which comes to India.



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- Aasim Bharde:** Okay. Thank you very much.
- Sanjay S. Math:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Bhagat. An individual investor. Please go ahead.
- Bharat Bhagat:** Thank you for giving me the opportunity. My question is that why raw cost increase almost 50% as compared to previous quarter, as an investor I want to know.
- Sanjay S. Math:** One thing you should understand, when the PVC goes up, all the raw material prices are also moved up. So EDC, as well as VCM, both the prices are moved up. So raw prices will definitely follow the PVC route.
- Bharat Bhagat:** Okay. But it is almost 50% the compared to previous quarters, sir.
- Sanjay S. Math:** Yes. There was a lag some somewhere or the other, the PVC prices, reached USD1,900. So that is why there was a huge differential between PVC to EDC, as well as from PVC to VCM. So definitely the EDC suppliers, as well as VCM suppliers they're increasing the prices.
- Bharat Bhagat:** Okay. And Sir second question is probably roadmap for coming two year?
- Sanjay S. Math:** I didn't get your question.
- Bharat Bhagat:** Sir what's company's roadmap for coming few years?



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Sanjay S. Math: Roadmap is in the sense that we continue to operate in the similar manner. We see that the demand goes up and we hope that we will have at least double-digit growth coming for the next year.

Bharat Bhagat: Okay. Thank you, sir. Best of Luck sir.

Sanjay S. Math: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Please go ahead.

Rahul Agarwal: Yes. Hi. thanks for the follow up Sanjay ji, there's one macro backdrop, right? That the non-agri demand should see sustained and strong situation going into next two, three years purely because there is decent amount of recovery on real estate side, the construction looks okay. Both urbans semi-urban. Of course, home improvement and stuff like that is also driving some kind of renovation demand. On agri side, last two seasons have been hit by COVID, this year also we are a bit delayed. My sense is farmers will be waiting to put pipes and improve their field and wait for the rains to stop. So overall, both end customers, end consumers for us, on a steady state basis, look like that the demand for pipes should be pretty strong. And, we should report like very high volume growth, going forward when things stabilize. And we should, basically try and hit our 3 lakh ton kind of volume for pipes and fittings. Any thoughts sir on this fiscal '23, '24? How -- do you agree with this? Or do you think there is some gap in my understanding?

Sanjay S. Math:: I think...

Niraj Kedia:: No Rahul, are you absolutely correct? Yes. Mr. Math. Please go ahead.

Sanjay S. Math: Yes. I think your analysis is definitely music to our ears. Definitely. We also look at and hope that the demand really comes back to agri. Agri has been doing -- actually if you see agri growth in GDP terms is more than 3% to 4%, now. The last two years, the, the rain has been good and both the harvest Kharif as well as the Rabi crop has been good. So the money with the farmers is there, it is only the pricing that has definitely -- has possibly made as a deterrent for going ahead with the investments on the pipe in the irrigation investment. I think what you are saying is right, you know, that next two years, it should see that whatever shortfall on the demand that we have seen, the farmers will come back and they will go ahead with their investment in irrigation. On the other hand on the real estate also the inventory is getting over. So there is the particular -- the low income housing is definitely has now taken route. And it'll definitely go ahead and more and more instead of housing, middle income group and the low income group that will grow. That will drive the demand on the retail basis. I think, yes, you are right. We also see that this may happen. I think we don't like to predict something. We always see that we try to try to meet the demand with all our supply site constraints controlled.

Rahul Agarwal: Got it, sir. So essentially does that mean that, you know, wherever things normalize and we cross that 3 lakh ton kind



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of number for pipes and fittings, till that point, we don't need any Capex for resins. I mean, that is good enough to meet the PVC pipe demand, is that correct? So there is no CapEx for next three years in PVC resins.

Sanjay S. Math: No, no CapEx for PVC resins. Yes.

Rahul Agarwal: Okay. Perfect. Last question, just to end the call. Any expectations from the union budget or first Feb anything positive, negative to your sector or company specifically any requests to the government, as in, -- as an industry, you would've made. Your comment please, thank you.

Sanjay S. Math: I think support to agri sector and support to the construction sector that in any form which the government does, will be beneficial for us also.

Rahul Agarwal: Okay. Thank you so much and all the best.

Sanjay S. Math: Thank you.

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

Sonali Salgaonkar: So thank you just one follow up rather one clarification, this agri volume minus 5% year-on-year and non-agri of plus 30% year-on-year. Is it on the basis of FY '21 or FY '20.

Niraj Kedia: FY '21.

Sonali Salgaonkar: Okay, sir. Thank you.



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Moderator: Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.

Chirag Lodaya: Yes. Sir, I just wanted to know this out of 1.2 Lakh tons per month import how much it could be from China and how much it could be from US, currently?

Sanjay S. Math: I think this data is available. Maybe you can refer to that. I don't have the number now.

Chirag Lodaya: Any rough sense, how big would be China today?

Sanjay S. Math: China, less than 10,000 tons.

Chirag Lodaya: Got it. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Two questions. One at some point in your earlier answer you spoke about pricing being different from one region to the other, which is basically a function of your cost and whatever margins. So just wanted to understand what would be the differences in costs on a regional level which would drive differential pricing. So that's number one.

Niraj Kedia: Transportation is one. Yes, please continue.

Tarang: Hello?

Niraj Kedia: Yes, please, please complete your query.



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Tarang: Right. The second question is my sense would be that most of the working capital that's employed in the business would be attributable to the pipes and fittings business. Would that be accurate?

Niraj Kedia: Large part of it, yes, But also in the resin segment also there's inventory, which is carried. So it's not that completely it is for pipes and fittings.

Tarang: And typically how many days of inventory is carried in Resins?,

Niraj Kedia: 30 days. Roughly.

Tarang: 30 days. Okay. Yes. My first question, please.

Anil V. Whabi: For imported material, importing inputs. It's two months.

Tarang: Okay.

Niraj Kedia: See, roughly the difference in pricing comes from, see, we sell at factory. Okay. So that way our pricing for everybody is more or less the same, but how the prices to the end customer, they vary, one of the major items which come into play is the freight, because transportation plays a major role when the dealer or the retailers, at what price it reaches them.

Tarang: Okay. So freight is the primary factor differentiator, that's it, right?

Niraj Kedia: Yes. Got it. Okay. Thank you.



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

Ritesh Shah: Yes. I'd like to thank the management for providing us opportunity to host them and for very detailed commentary and insights. Thank you so much. I'll hand the call to Math Saab for final closing remarks. Thank you.

Sanjay S. Math: Thank you, Ritesh. And Thank you all of you to have a continued interest in Finolex Industry. We will be happy to share any more information whenever you want. I think we look for your continued support in the future also. Thank you again. Thanks.

Niraj Kedia: Thank You.

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