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* Anil V. Whabi

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Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst

Ladies and gentlemen, good day, and welcome to the Q1 FY '20 Earnings Conference Call of Finolex Industries Limited hosted by Investec Capital Services. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Ritesh Shah from Investec Capital. Thank you, and over to you, Mr. Shah.

Thanks, Margaret. On behalf of Investec, I thank you all for joining Finolex Industries Q1 FY '20 Conference Call. We have with us Mr. Anil Whabi, our Chief Financial Officer; and Mr. Krishnamoorthy for the conference call.

Over to you, sir, for the opening remarks. Followed by that, we'll have a Q&A session. Thank you.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [3]

Thank you, Ritesh. Good morning, everybody. I welcome you all to the Finolex Industries Q1 FY '20 Investors Conference Call.

The sales volume for PVC Pipes & Fittings was at 91,655 metric tonnes for Q1 FY '20, higher by 18.1%. The sales volume for PVC Resin for Q1 FY '20 was at 78,512 metric tonnes, higher by 14.7%. Total revenue was at INR 944 crores for this Q1, up 14%. PAT was at INR 73 crores in Q1, lower by 29.1% (sic) [29.8%] from INR 103 crores in Q1 FY '19.

PVC Pipes & Fittings segment witnessed a good volume growth and better results. However, lower PVC/EDC delta due to fall in PVC price and higher EDC price has reduced the margin in PVC segment on Y-o-Y basis.

I would now like to leave the floor open for questions. Thank you.

(Operator Instructions) The first question is from the line of Ritesh Shah from Investec Capital.

I'll just start, sir, with the questions till the question queue assembles. Sir, my first question is, what is our percentage of contracted or outsourced volumes on the fittings side, and consequently, its impact of Ind AS 116? That's one. Secondly, column pipe volumes for the quarter? And thirdly, CPVC volumes for the quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [3]

For the fittings, that the facilities have been setup are exclusively for us. It is only managed by the experts who are in the molding business. So these are the facilities exclusively setup for us, and there is no impact of 116.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [4]

Okay. And sir, what was the quantum over here?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [5]

In case of fittings, it is almost entire, but it is distributed in 5 contracts.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [6]

Sir, possible to elaborate?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [7]

Yes. So all the molding fittings, we are getting it done through the facilities setup independently. They are not made in-house, but from exclusive facilities setup for this purpose.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [8]

Okay. Fine. Sir, column pipes and CPVC volumes for the quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [9]

Column pipe was 1,189 tonnes and CPVC total volume was at 2,321 tonnes.

Operator [10]

(Operator Instructions) The next question is from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [11]

Sir, my first question is, what was our PVC to EDC spread this quarter versus Q1 FY '19?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [12]

This quarter was \$490 as against Q1 '19 \$689.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [13]

Okay. Sir, what were the prices of EDC, ethylene and VCM this quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [14]

EDC was at \$393, ethylene was \$858 and VCM was \$718.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [15]

Okay. Sir, in terms of CPVC you pointed out the volumes this quarter, but what about the revenues this quarter versus Q1 FY '19?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [16]

Revenue was INR 66 crores as against INR 43 crores of last year.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [17]

Okay. Sir, volumes were 2,321 tonnes this quarter versus how much last year?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [18]

1,704 tonnes.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [19]

Okay. All right. Sir, and in terms of pipes, you -- do we maintain our guidance of 12% to 15% volume growth for FY '20?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [20]

Yes. We do.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [21]

Okay. Sir, and lastly, sir, PVC to EDC spread, we understand there are a lot of moving parts out here, but directionally, do we expect this spread to stabilize from hereon, improve? Or how do we look at it right now, with the current global scenario?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [22]

See, if we look at from March end onwards, it has improved because in March and April, the prices of PVC fell down in quick succession, but then PVC prices have gone up progressively and EDC prices have been inching down. So there is improvement in spreads.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [23]

Sure. Sir, lastly, on the capacity front, what is our current capacity utilization? And how much do we expect to ramp up by end of FY '20? That's it from my side.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [24]

Yes. In Pipes & Fittings, as we mentioned earlier, the capacity now is 370,000 tonnes and utilization always is 65% to 70%. And this year, we should be adding, but by year-end how much would we end up with right now it is not very certain. But we had in modular fashion as you know about 30,000, 40,000 tonnes each year.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [25]

Got it. Sir, and this should entail a CapEx of around INR 1 billion approximately?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [26]

Yes, yes.

Operator [27]

The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda, Fidelity Investments - Equity Research Associate [28]

Just on the spread, could you just repeat what that number was for Q1 FY '20? And what is it currently trending on spot basis, the spread versus the Q1 average that we have?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [29]

See, Q1 average was \$490.

Madhav Marda, Fidelity Investments - Equity Research Associate [30]

\$419?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [31]

\$490.

Madhav Marda, Fidelity Investments - Equity Research Associate [32]

\$490. Okay. And on spot basis, has it improved at all or it's still...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [33]

Yes. It has improved. It has improved. So it is at \$575 as of now.

Madhav Marda, Fidelity Investments - Equity Research Associate [34]

That's a pretty decent improvement over the last 45 days.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [35]

Yes. But average if you look because it has been volatile, so for June, July if you look, it should be about \$550 -- July, sorry, for July, it should be \$550.

Operator [36]

The next question is from the line of Achal Lohade from JM Financial.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [37]

Sir, pardon me if I'm repeating the question since I joined a little late. What is the volume growth guidance for FY '20 for us?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [38]

See, we expect to end this year with 12% to 15% volume growth. That is what we are targeting.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [39]

Right. And given the current state of monsoon and all, what do you -- how do you see the growth in terms of these regions, like for us?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [40]

See, all regions perform differently in different periods. Like in monsoon -- while in South, monsoon is not there right now, so there would be some offtake. In Maharashtra, Karnataka it has already slowed down. But overall, we should see growth in all the regions and 12% to 15% volume growth overall.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [41]

Okay. And can you help us with what is the mix in terms of plumbing and agro?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [42]

It continues to remain at around 70-30, give a percentage here or there, that's all.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [43]

Understood. And as of June, the capacity is 370,000 tonnes, sir, is that correct?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [44]

Yes, it is. Yes.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [45]

And would it be possible to breakup with respect to the PVC and CPVC?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [46]

See, for CPVC, it is only the [balance] crew which has changed, that's all. And the facility setup for CPVC can be used for PVC also. So there is some extendability here.

Operator [47]

The next question is from the line of Kunal Lakhan from Axis Capital.

Kunal Lakhan, [48]

Just quickly on the volume front, the volume growth has been higher than what had guided to start with. Firstly, like what is happening on ground, what has changed on ground that we have seen this kind of resurgence in demand? Secondly, like since you are not increasing the guidance or changing the guidance, you expect kind of a softer like -- or like a tapering of demand in the rest of the year?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [49]

It is not that we expect a tapering. We had started the year with a target of 12% to 15%. Now the first quarter, obviously, has been better. It could be because there was a delayed start in the market pickup, if you remember in Q3, Q4, the pickup was late. The second reason could be there can be -- it can be attributed to some shift from unorganized to organized sector. So we do not know for sure. But Q1 has been good for us.

Kunal Lakhan, [50]

Sure, sure. That's helpful. Secondly, on the realization front, I think you have guided for margins in the range of 8,000 to 8,500 per tonne. This quarter, we have seen you surpass that. Any color on guidance on margins going ahead?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [51]

No. I don't think Pipes & Fittings, we have surpassed that. It is just under 8,000 tonnes right now. And past 2 or 3 quarters, if you see, it has been improving slowly. So it should be around that number.

Kunal Lakhan, [52]

You still maintain 8,000 to 8,500 tonnes.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [53]

Yes.

Operator [54]

The next question is from the line of Maulik Patel from Equirus Securities.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [55]

Sir, sorry, I missed some opening remarks. Was there any inventory loss in this quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [56]

That was not mentioned in the opening remarks, obviously. Yes, there was inventory loss. See, whenever there is a sharp movement in PVC prices, it does result in inventory loss, or if there is a rise in the PVC price, it does result in inventory gain. That is part of this quarterly...

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [57]

Sure. Adjustment. So what was that number could be sir? And if you can...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [58]

That number is difficult to calculate. Even I don't have that number.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [59]

Okay. You also mentioned, sir, that currently spread is around for \$550 or \$580. This includes this recent import duty benefits towards the industry for the PVC, what we have received?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [60]

Yes. It does.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [61]

So that higher import duty on PVC and lower on EDC should start reflecting from Q2 onwards, right?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [62]

Yes. In PVC prices, yes, and it should reflect in the EDC prices as well.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [63]

But EDC, I think you have some inventory, so probably full reflection will be only happening in Q3 onwards?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [64]

Yes.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [65]

Okay. Sir, next question is on, when we say that the 18% growth has been good and that was in a delayed season which has now picked up, but historically, this has always been volatile. But on the other side on the plumbing side, any incremental efforts we are putting to push that volume higher? I can see that CPVC volume would have been very strong. Again, we are gaining the market share on that side. But what efforts we are putting to grow the non-agri segment higher, in terms of incentive to the distributors or the dealers or any significant marketing or initiatives we have taken?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [66]

See, it is nothing new that we have done. In the past year or 2, we have been trying to see that in non-agri we grow well because we are -- as you know, we are the late entrants in the non-agri business. So we are trying to see that the growth is higher there. So obviously there are incentives for the dealers. There are programs for the plumbers. There are meets with architects. So all these initiatives are being taken.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [67]

Sir, any financial -- I think, what we understand from that, we have been giving 30 days credit periods to the distributors for the entire non-agri business?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [68]

We have started giving, yes.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [69]

Okay. And this is in line with what other in the industries are giving, right?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [70]

This is in line with the demand from the dealers that if we want to grow in that business we have to do this because in turn they have to give credit to the customers in the market.

Operator [71]

The next question is from the line of Praveen Sahay from Edelweiss.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [72]

Can you give the CPVC number, sir?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [73]

Yes. CPVC, we did 2,321 tonnes in Q1 as against 1,704 tonnes in Q1 of last year.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [74]

And sales?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [75]

CPVC sales was INR 56 crores as against INR 43 crores last year.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [76]

Okay. And next on the -- because of the environmental reasons, there's the flood and all, so have you still have to see anything on the -- from the ground like an impact on your businesses going on or is that an opportunity going forward?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [77]

No. We have seen the excess or drought conditions do not affect the volumes in the subsequent quarters. So I don't think this will affect. Yes, particular regions would be affected, but overall, this should not affect the volumes.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [78]

Okay. And secondly, on that fitting business, that fitting business is still at around 6% of our overall contribution. So -- and if I compare with the last year, it's continuing like that. So are we putting any more effort to grow this business going forward?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [79]

See, we are putting in efforts, but as long as agri continues to remain 70% of our total volume, obviously, the fitting volume will be low because in agri the fitting volume required is lower.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [80]

No. But our CPVC business is improving.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [81]

Yes.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [82]

So in that sense it..

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [83]

But -- yes, but CPVC business is so small, it'll not make impact on the overall fitting volume. And CPVC, yes, it is growing, the pipes as well as fittings.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [84]

Can you give any distributor or dealer reach for your plumbing business? How much is there right now?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [85]

See, it's a mix. All our dealers deal with both products. Now it is in urban areas where we're trying to grow, the dealers there mostly will deal with only plumbing products.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [86]

Okay. Okay. So basically, there is no separate channel you are creating, but it's already there in the system the urban distributor handling the plumbing or a CPVC product?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [87]

And in rural areas, one would try to sell both.

Praveen Sahay, Edelweiss Securities Ltd., Research Division - Assistant VP of Equity Research & Research Analyst [88]

And lastly, sir, can you give the numbers, what the average price of PVC, EDC and VCM last quarter, first quarter FY '20?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [89]

EDC was \$393, ethylene was \$858, while VCM was \$718.

Operator [90]

(Operator Instructions) The next question is from the line of Madhav Marda from Fidelity Investment.

Madhav Marda, Fidelity Investments - Equity Research Associate [91]

Sir, just wanted to understand on the fittings side, why are we outsourcing the production and not doing it captively, any reason for that?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [92]

See, as we started our business, we were good at pipe-making business. We were not making fittings earlier. So when we started, we identified few people who were already in the molding injection business, and we've setup the facilities for them to operate for us.

Madhav Marda, Fidelity Investments - Equity Research Associate [93]

Okay. So just that they have some skill set already...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [94]

Facility 100% for us -- setup for us. So the entire capacity that they have is for us.

Madhav Marda, Fidelity Investments - Equity Research Associate [95]

Okay. Okay. Got it. And what percent is outsourced -- fittings is almost completely outsourced or...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [96]

Almost completely, the molded fittings are almost completely, outsourced, yes.

Madhav Marda, Fidelity Investments - Equity Research Associate [97]

Okay. Okay. And given that's still outsourced business, there wouldn't be an impact of Ind AS 116, sir, just wondering?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [98]

No. There isn't. These are the exclusive, as I said. So the impact of 116 is not there.

Madhav Marda, Fidelity Investments - Equity Research Associate [99]

Okay. Okay. Got it. Anything on surprising trend, sir, for this? Is there any...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [100]

No.

Madhav Marda, Fidelity Investments - Equity Research Associate [101]

Nothing.

Operator [102]

The next question is from the line of Achal Lohade from JM Financial.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [103]

First, with respect to column pipe, could you please help us with the volume and revenue for current quarter as well as last year same quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [104]

See, current quarter, it has been 1,189 tonnes as against 655 tonnes of last year. The value has been about INR 14 crores as against INR 8 crores last year.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [105]

Got it. And what was it for full year? Would you have that number, sir, FY '19?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [106]

Yes. FY '19 was 3,233 tonnes and value was INR 38 crores.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [107]

Got it. Second question was with respect to the government talking about Nal se Jal scheme, so just wanted to know your thoughts on the same with respect to the opportunity for us to play in this particular scheme and which part of the value chain would we be fitting in?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [108]

See, obviously, Nal Se Jal, I'm sure the government is taking it seriously. The target it has set up to 2024, which is a herculean task, but this definitely would generate good volumes for all the pipe manufacturers.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [109]

Right. And for us, given we are more agri focused, so how does it work for us? Would we...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [110]

Yes. See, pipe anyway would be required for distribution and it is piped water supply to all the homes. So there will be demand, and we would be keen to supply.

Achal Lohade, JM Financial Institutional Securities Limited, Research Division - VP [111]

Right. Any update on the DWC with respect to our plants on this...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [112]

None so far. None so far.

Operator [113]

(Operator Instructions) The next question is from the line of [Hemang Kothari from Angel Research].

Unidentified Analyst, [114]

Hemang here. Sir, just want to know breakup of production through EDC and VCM route for PVC Resin?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [115]

I don't have those numbers right now. See, we try to utilize the entire capacity. Only thing is in case of VCM, since the jetty closes by mid of May and VCM storage capacity is not very large, so during Q2, of course, there is no production from imported VCM and Q1 also it is only for a part of the period.

Unidentified Analyst, [116]

Okay. So majority is EDC route?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [117]

Yes.

Unidentified Analyst, [118]

Okay. And what is the value of PVC fittings in the quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [119]

PVC fittings, I'll just tell you. It was about INR 101 crores in value.

Operator [120]

The next question is from the line of Sriram Srinivasan from KSEMA Wealth Management.

Sriram Srinivasan, [121]

First of all, congratulations for the very...

Operator [122]

Sorry to interrupt you, Mr. Srinivasan. May I request you to speak on the handset mode, sir. There's a lot of echo from your line.

Sriram Srinivasan, [123]

Yes sure. Hello?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [124]

This is much better now. You can speak.

Sriram Srinivasan, [125]

Yes. Fine, sir. Congratulations for your very reasonable volume growth we can see. Sir, I have just few questions. In terms of the inventory, we are seeing that which was [affecting] our margins nearly 100 basis points from the last year, on year-on-year basis. So may I know the reason what it will be [directly]?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [126]

Sorry?

Sriram Srinivasan, [127]

What is the reason for that inventory loss during the quarter?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [128]

See, the entire drop in EBIT is not because of inventory loss. Inventory loss has happened, yes. But EBIT drop in PVC segment is also because of drop in PVC prices and higher input cost also. So that is why you see this drop from INR 123 crores EBIT of last year to INR 41 crores.

Sriram Srinivasan, [129]

Okay. As far as if you see changes in the inventories on the (inaudible) are higher from INR 86.1 crores to INR 191 crores, which was more than double the time. May I know how it was...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [130]

No, no. You know that in Q3 and Q4, the market pickup happened late, so we had accumulated inventory, which was cleared up in this quarter. So there is a drop in inventory to a large extent.

Sriram Srinivasan, [131]

Okay. Fine. Because of the slow pickup which was made to keep the stocks in our inventory.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [132]

Yes, yes.

Sriram Srinivasan, [133]

Yes, yes. How does the trend went? In Q2 and Q3, we can see, so -- see, actually Q3 is not so that much better quarter for us actually in cyclical, right?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [134]

See, Q1 and Q4 are the best quarters for us, while Q3 there is some pickup and Q2 is always a lean quarter.

Sriram Srinivasan, [135]

Yes. How does see the inventories will be there in Q2, is this cleared off or whether it's still there?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [136]

No. See, inventory is obviously cleared off. That is why you see this figure in profit and loss account.

Sriram Srinivasan, [137]

Okay. So we can see the better number in Q2 in terms of inventories, right?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [138]

Yes, yes, of course.

S. Krishnamoorthy, Finolex Industries Limited - General Manager of Accounts & Finance [139]

Normal inventory.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [140]

So normal inventory will be carried through, yes.

Sriram Srinivasan, [141]

Yes. And sir, how do you see that consumption slowed down in rural areas which are -- because we were nearly 70% of the business is coming from agro, which is purely based on the rurals. So how do you see the things over there? In terms of macro front, can you please elaborate something?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [142]

See, in non-agri, the business we do is 30%, but we have seen growth in both the sectors, in agri as well as non-agri.

Sriram Srinivasan, [143]

Okay. So there is no distress we can see in that rural consumption in terms of pipes, right?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [144]

See, there is consumption, there is affordable housing happening. So volumes are there in both the sectors.

Sriram Srinivasan, [145]

Okay. Sir, how do you see that Nal Se Jal is going to be productive idea for our business? Because the government is saying that 100% of pipeline for the urban households and rural households in the next 5 years which -- it will be phased manner. How do you see in which phase that we will get benefited? Because is this the route to get a -- expand our non-agro business like household business.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [146]

See, the pipes used will be for pipe -- water distribution. So the pipes that we make for potable water that would be ASTM pipes, obviously, will be there, but the agri pipes which are used can also be there.

Sriram Srinivasan, [147]

Okay. So what kind of margins that we can get for FY '20, FY '20 in terms of EBITDA?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [148]

See, in case of PVC segment, obviously, it depends on the prices that happen in the future quarters. While in case of pipes, it should be at around INR 8, INR 8.5 that it has been normal in the earlier years.

Sriram Srinivasan, [149]

Okay. And how does the crude will play over here? Even in this quarter, we can see that the crude was on totally depreciation, which was nearly 20% from its high of, sir, which was at \$62 last time, it is now \$52, \$53 in this range. How do you see this kind of scenario? How it will impact our EDC and VCM prices?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [150]

See, obviously, these are crude derivatives, so they are affected. But it is not only the crude price which affects their prices. So even when the crude prices were a little low, EDC prices shot up because of constraint in the supply. So it depends on many factors, but yes, crude is one of them.

Sriram Srinivasan, [151]

Okay. Fine. So for the upcoming quarters, we can expect that the 13% to 15% of margin, sir, on an overall business basis, consolidated basis?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [152]

See, that -- If you have seen, that is the normal that we have achieve, but whether we would in the coming quarters, it's difficult to say.

Sriram Srinivasan, [153]

Okay. It's difficult to say on the numbers.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [154]

Especially for PVC segment.

Sriram Srinivasan, [155]

Okay. Sir, what kind of earnings we can expect for the FY '20 in terms of earnings growth?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [156]

See, as I said, it is difficult to say how much will it be for each -- it keeps on differing from quarter-to-quarter. But annually, if you see, it has been -- EBITDA number has been in normal years 12 to 15 years, but if you see past 3 years, it has been exceptionally good because of better results in the PVC segment.

Operator [157]

The next question is from the line of [Akshay Sateja], an individual investor.

Unidentified Participant, [158]

Question was related to the recent Prime Minister announcement of Har Ghar Jal till 2024. So I wanted to understand PVC Pipes are used for the distribution purpose, right?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [159]

Yes.

Unidentified Participant, [160]

And for the mains, it's mostly steel pipes that are used?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [161]

Yes.

Unidentified Participant, [162]

Are there -- is there any way PVC or HDPE pipes that fit in those mains?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [163]

See, it is possible. For higher dia, HDPE pipes can be there. In case of PVC, it could be PVC-O pipes, which can be there. But right now, we are making PVC pipes up to 400mm.

Unidentified Participant, [164]

Okay. Okay. And sir, my next question was, sir, what could be the quantum of the expense related to the schemes? So there has been announcement that the government is planning to spend INR 5 lakh crores, INR 6 lakh crores on this project itself. So what percentage could be spent on pipes from this?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [165]

It is difficult to say. This will depend on each region. So government is already working out from region to region.

Unidentified Participant, [166]

But still [some round of] 40%, 50%, 30% depending on past similar projects?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [167]

See, now projects on a similar scale has never been undertaken earlier. This is the first time that the government is taking this step for all the regions. But yes, you are right, this will result in a sizable business for the pipes and all the pipe making business -- pipe making companies should benefit.

Operator [168]

The next question is from the line of Ritesh Shah from Investec Capital.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [169]

Sir, can you provide some color on the quantum of discounts which were offered this quarter on Pipes & Fittings?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [170]

If you see the realization, they have been normal. So normal discounts were given. There's nothing exceptional about this quarter.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [171]

Okay. And sir, on Resin side?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [172]

Resin side also it was normal. So there was nothing exceptional given for liquidation of inventory because the demand picked up, so the liquidation did happen.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [173]

Okay. And sir, how are the pricing trends on the PVC and CPVC side, say, from July onwards?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [174]

Normal. Nothing has changed. Only change is happening because the PVC prices keep on changing, that's all. Otherwise, there is no other change.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [175]

Can you quantify the extent with which PVC prices have changed since June end if one has to look at it -- assume one wants to understand numbers for July and August so far?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [176]

See, in fact, the duty was imposed on July 6. So that is when the price went up by INR 1.5. Subsequently within 2 weeks, the prices fell by INR 2. And again, last week it went up by INR 1.5.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [177]

Okay. And sir, on CPVC side?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [178]

CPVC, since we are buying compound, so there has been no change so far.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [179]

Okay. And sir, has there been any change in strategy on the credit offered for PVC and CPVC? I think CPVC is 30 days and PVC is cash-n-carry, is that correct?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [180]

See, in agri, it continues to be cash-n-carry. For non-agri business, we have started giving credit of 30 days. This will enable us to grow faster in that segment.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [181]

Okay. And sir, we have been doing very well on the CPVC volumes. I understand the volumes are still very low. But if one wants to understand this volume offtake, is it more from the urban regions or is it more from the rural network where our strength is?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [182]

See, in our case, the distribution is more tilted towards the rural and semi-rural regions, so obviously, the volumes are there in those regions. But in urban regions also now we are trying to build up our presence. So slowly it is picking up in these regions as well.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [183]

Okay. And sir, what is your pricing strategy specifically on the CPVC side as well? We and Ashirvad they secure the compound from Lubrizol. So is it something which is at higher than other players like Supreme or [Astha], which do captive compounding or they import resin from other countries. Sir, what is our pricing strategy over here? And what are the targets that we are working on the CPVC side going forward?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [184]

See, pricing strategy is no different in the CPVC segment. We -- obviously, the people who make compound in-house would have lower cost. We were also making compound earlier, so costs were lower. But having realized that FlowGuard brand is well established and since the opportunity was there, we tied up for the supplies. And going forward, our intent is to see that the volumes grow in that business.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [185]

Okay. Any numbers that you are targeting?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [186]

No. There's no fixed target. If you have seen in past 2 years, the volume growth has been more than 40% because the base is very small.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [187]

Okay. Okay. Sir, if I had to put a related question, if one looks at the return ratio profile for CPVC volume vis-à-vis agri volumes, if possible, if not quantitatively, if qualitatively if you can provide some color?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [188]

Some color on?

Ritesh Shah, Investec Bank plc, Research Division - Analyst [189]

The return ratios that CPVC will be...

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [190]

About 2 years back, the returns were much better, but with the correction of prices happening in the marketplace, returns have come down. So as we have been saying in -- returns in non-agri business are slightly higher than the agri business and within non-agri, CPVC is higher.

Operator [191]

The next question is from the line [Kedar Bhi from Composite PMS].

Unidentified Analyst, [192]

Sir, if I were just to take our baseline volume growth of 12%, 15% per annum, sir, so looks like at some point of time in either FY '21 or FY '22, we will be shipping out more volumes under the Pipes & Fittings category compared to the in-house PVC Resin that we produce.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [193]

Yes.

Unidentified Analyst, [194]

So going forward, as that happens, do we have any changes or stands that we will not be expanding the PVC Resin capacity we have in-house?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [195]

See, so far we have not decided to expand that capacity. And today also we are buying from the market, the PVC Resin for Fittings we are buying. PVC Resin for pipes for our Masar plant we are buying from the market. So either import or from the local market resin is easily available. So, so far there is no intent of expanding in the PVC segment.

Unidentified Analyst, [196]

Okay. Okay. Sir, the reason I was asking that question was that since this is something that's been clarified with the management in previous calls as well. So the volatility obviously in PVC Resin is much higher, whereas Pipes & Fittings seems to be a more secular sort of business. So that's where the question was.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [197]

Yes, yes.

Unidentified Analyst, [198]

So second question I had is, sir, over the past couple of years, we have seen the entry of like a couple of large players in the building material segment, who traditionally have not had any presence in the PVC segment. So we have seen HSIL put up INR 200 crores, INR 300 crores kind of a capacity. We've seen HIL do that as well. Are you starting to see any early signs of much higher competitive intensity coming into the market either in terms of pricing or in terms of, let's say, trying to sign up more dealers and things like that?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [199]

See, if you see the margins anyway are not very high. So I don't think that incoming competition also will pose a threat, and so far we don't see that.

Unidentified Analyst, [200]

So would I be right, sir, in sort of inferring that though the industry by itself is growing, it's mostly the organized players who seem to be putting up capacity and given that this is an oligopoly structure, you don't really see that scenario of intensive pricing breaking out anytime, sir?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [201]

Yes, yes.

Operator [202]

(Operator Instructions) The next question is from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [203]

Sir, just 2 small questions. Firstly, what are our SKUs currently in Pipes & Fittings and also CPVC?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [204]

See, overall, SKUs are about 1,500 and in CPVC, it would be just above 200.

Sonali Salgaonkar, Jefferies LLC, Research Division - Equity Analyst [205]

Okay. Sir secondly, during this quarter, that's Q1, what was our Q-o-Q drop in PVC prices?

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [206]

Q-on-Q, it was about INR 5 a kg, say, 6% to 7%.

Operator [207]

(Operator Instructions) As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Anil V. Whabi, Finolex Industries Limited - Director of Finance, CFO & Whole-Time Director [208]

Thank you very much, ladies and gentlemen.

S. Krishnamoorthy, Finolex Industries Limited - General Manager of Accounts & Finance [209]

Margaret, we can conclude the call.

Operator [210]

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