



“Finolex Industries Limited Q1 FY2022  
Earnings Conference Call”

August 02, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to the Finolex Industries Limited Q1 FY2022 Earnings Conference Call hosted by Investec India. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah, Analyst Material, Head Mid-Market Coverage and ESG, Investec India. Thank you and over to you Sir!

**Ritesh Shah:** Thanks Rituja. We welcome you all to Finolex Q1 FY2022 Results Conference Call. We have with us from the management Mr. Sanjay Math, Managing Director and Mr. Anil Whabi, Director Finance and CFO. I would request the management for initial remarks post which we will have Q&A session. Over to you Mr. Math.

**Sanjay S. Math:** Thank you Ritesh and good morning to all of you ladies and gentlemen. I heartily welcome you on behalf of Finolex Industries Limited to this investor conference. Thank you for your continued interest in Finolex so far. We are happy to talk about the first quarter results FY2022. The company has reported good set of financials despite the overall business environment remaining subdued due to the second wave of the pandemic. After reaching all time high, the PVC prices seemed to be cooling off which is a positive sign for opening up of the market demand. There has been improvement in all our financial parameters over the last year’s quarter, although we should keep in mind the last year first quarter was also affected by COVID one wave. Let me give you some performance indicators of Q1 2022.

The total income from operations was Rs.966 Crores for Q1 2022 this is up by 71.9% against Rs.562 Crores in Q1 2021. The corresponding pre-COVID income Q1 2020, this is also I am giving you, the total income is matching with pre-COVID. Volume in pipes and fittings segment grew 5.5% against the last quarter Q1 2021, the total volume was 55819 against 52911 in Q1 2021. This is again lower than the pre-COVID volume like last year. Volume in PVC resin segment grew by 10.6% to 50249 tonnes against 45435 tonnes in Q1 2021. This is again lower than pre-COVID volume. EBITDA stood at Rs.210 Crores in quarter 2022 which is up by 137% at Rs.88 Crores for quarter 2021 and corresponding figure pre-COVID in quarter 2020 was 124, so this EBITDA in quarter 2022 is 69% higher than pre-COVID.

Profit after tax stands at Rs.146 Crores for quarter 2022 up by 166% against last year’s PAT of Rs.55 Crores for quarter 2021 and pre-COVID PAT corresponding quarter one 2020 was Rs.72 Crores so it is double than the pre-COVID PAT. These are the financial numbers. Getting into segmental performance in the resin segment was Rs.158 Crores up by 580%



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than the last years and the pipes and fitting segment was Rs.44 Crores and this is down by 15% than last year. We have a net cash surplus of Rs.606 Crores standing at 30<sup>th</sup> June 2021. I think these are the numbers that I have to share with you. I will leave the floor open for questions as we have already said I am accompanied here by our Director Finance, Mr. Whabi and Mr. Niraj Kedia who is the Deputy CFO. So leave it to you Ritesh, please go ahead. Thank you gentlemen.

- Ritesh Shah:** Thanks Math Sir. Rituja, we can open the queue for question and answers please.
- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar:** Thank you for the opportunity. Sir, my first question is regarding what is the spread risk PVC to EDC, what was it last quarter and what is the current spread right now?
- Sanjay S. Math:** The average for the quarter PVC to EDC \$.830 MT and PVC to VCM is \$.311 MT.
- Sonali Salgaonkar:** What was it in Q1 FY2021?
- Sanjay S. Math:** \$ 547 MT for PVC to EDC and PVC to VCM \$ 224 MT.
- Sonali Salgaonkar:** What is the current spreads
- Sanjay S. Math:** Current spread even today the numbers are very attractive as such, today we have seen PVC prices are hardening \$50 about 1400 to 1430 PVC and for EDC we were running at 670, 680, so spread is coming up to 310, 320.
- Anil Whabi:** The present spread is 670 PVC, EDC.
- Sanjay S. Math:** That was last week I am just talking about ICI today.
- Anil Whabi:** Yes.
- Sonali Salgaonkar:** Understand. Sir my second question is regarding the EBIT for pipes and fittings, so we have seen the absolute EBIT margin as well as EBIT per tonne declining both year-on-year sequentially, any particular reason why we are seeing this trend this quarter, because consistently we had seen the EBIT per unit a go up over the past five, six quarters?
- Anil Whabi:** One is due to the mix and the second is the rising PVC prices, there were inventory gains which were there in the earlier quarters and obviously even the PVC prices are moving down, there will be some inventory loss because of that, so it is a mix of so many factors.



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- Sonali Salgaonkar:** What was the mix this quarter agri versus plumbing and secondly the quantum of inventory loss this quarter?
- Anil Whabi:** Inventory loss, it is difficult to quantify and agri, non-agri mix in the last recent call we did mention that for last year, agri to non-agri was 63:37 and Q1 normally being agri dominant so obviously at this time in this quarter ratio is about 68%, 69% for agri which is higher.
- Sonali Salgaonkar:** Understand. Sir any guidance you would like to give at this point in time either in terms of the steady state margins for pipes or PVC segment?
- Anil Whabi:** Pipes and fitting segment normally it ranges between Rs.8 to Rs.10, so that should be in future also.
- Sonali Salgaonkar:** Sir, the EBITDA margins?
- Anil Whabi:** Yes, per Kg.
- Sonali Salgaonkar:** Okay, got it. Next CPVC volumes and revenue this quarter versus last quarter please?
- Sanjay S. Math:** PVC volume 2431 and last year quarter was 882, so there is a three-fold increase, but in Q4, we had better CPVC 3692 tonne. Now this is because this quarter also there is a COVID 2.0 that COVID effect is seen, I think that moment which was there in Q4 is not seen in Q1.
- Sonali Salgaonkar:** Got it Sir. How is the demand situation that you are witnessing right now, so we understand that this is seasonally weak for agri, but what about plumbing?
- Sanjay S. Math:** I think agri will depend upon the monsoon and monsoon is very active now and almost all the southern peninsula has been covered even the northern side, the monsoon is active, so agri will not take off for some time, it is a monsoon demand that will go up. I think as the pandemic is receding and we have seen now, the cases coming down to about 40,000 from 4 lakhs in last quarter, so there is unlocking going on I think, opening up is already there. We see some traction in PVC demand, so July was the better month compared to Q1 and we will see if this continues in the remaining two months of this quarter.
- Moderator:** Thank you. The next question is from the line of Chirag from HDFC Asset Management. Please go ahead.
- Chirag:** Good morning. Could you provide us with the PVC, EDC, ethylene and VCM prices for the first quarter of this year and last year?



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- Anil Whabi:** This quarter PVC average price 1543, EDC 709, ethylene 991 and VCM 1233.
- Chirag:** And last year same quarter.
- Anil Whabi:** Last year Q1 2021 PVC 740, EDC 193, ethylene 537 and VCM 516.
- Chirag:** And what will be the current or last week prices for the same?
- Anil Whabi:** I think last week prices PVC 1360, EDC is 690, ethylene 1005 and VCM 1080.
- Chirag:** The other question I had is, what kind of expansion do we envisage in the pipes business this year and over the next two to three years?
- Anil Whabi:** Say it again what is your question?
- Chirag:** In terms of the distribution reach, what kind of expansion are you planning for this year and over the next couple of years?
- Anil Whabi :** Numbers of dealers and distributors I am looking at expansion in the dealership network.
- Anil Whabi:** I think presently we are fully covered across all India, present range is about 900 dealers and 21000 retailers, we may add a few more.
- Chirag:** Last question what was fitting sales this quarter versus previous quarter?
- Anil Whabi:** Volume 5192 MT was and value wise Rs.141 Crores.
- Chirag:** And the previous year?
- Anil Whabi:** Previous last year first quarter was 3054MT and value was Rs.56 Crores.
- Chirag:** Sorry value was?
- Anil Whabi:** Rs.56 Crores. There is an increase of 150% on value and 70% on volume.
- Chirag:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

**Rahul Agarwal:** Good morning and thanks for the opportunity. I had three quick questions. firstly on the volume, could you help me understand how much is the volume loss because of COVID lockdown on a normal circumstance, the company would have done 80000 to 90000 tonnes is what my understanding is on overall pipe volumes, but any analysis in terms of how the actual have panned out versus your own expectation obviously existing for COVID, what is the volume last year for agri pipe?

**Sanjay S. Math:** Rahul, it is difficult to state that, because the could be reason of high PVC prices also, there are multiple factors, so it is difficult to tell for which reason the volumes have come down .

**Rahul Agarwal:** Okay, so let us say in terms of your sense of non-agri demand, could you help me understand over let us say short term, let us talk about till December 2021, which segment within the non-agri you are seeing demand coming in let us say July, what is your expectation for July, August?

**Sanjay S. Math:** I think we will be looking at the CPVC one, fittings second and the CVPC, these are the main areas of thrust. Agri may be as the normal average of monsoon but as Mr. Whabi said, there are multiple reasons, one is COVID and the other one is pricing and the third one is if you say pre COVID 2019 the monsoon was delayed. Although overall monsoon was good but it was delayed up to mid of July and that is why that volume was good. You were talking about Q1 2020 was 90,000 plus but that was not normal average of Q1, it could be somewhere around 80 to 85,000. The loss could be somewhere around 25,000.

**Rahul Agarwal:** Got it Sir. And last question on other expenses. This number has actually stayed flat Q-o-Q at 130 Crores any one-offs or anything you want to highlight there or is it a normal number.

**Anil Whabi:** Normal number. There is nothing unusual there.

**Rahul Agarwal:** Sir I was more asking from a servicing perspective as in terms of service since we do not have a plant there. I was more asking from that perspective long term, structural; how do you address east market because I think west, north, and south are all very well catered by the company.

**Sanjay S. Math:** We are servicing it through our various plants here in West. There is a transportation cost but we are bearing it.

**Rahul Agarwal:** Okay perfect. All the best. Thank you so much for answering my questions Sir.

**Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.



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- Vipul Shah:** Hi Sir congratulations for a good set of numbers. My question is with the fall in PVC prices are you seeing any improvement in demand Sir for agri sector.
- Sanjay S. Math:** Agri sector at present in monsoon we cannot really see that it will take off like what we see normally in winter and summer.
- Vipul Shah:** But what is your assessment, it should encourage more demand?
- Sanjay S. Math:** Look, seasonal demand is coming up only in Spring and summer so it may take off sometime around December, January when the monsoon is over and then the winter and the spring sets in, the demand starts peaking up and summer is the peak. So this particular quarter 2 may not be the real pickup in agri demand.
- Vipul Shah:** And Sir I missed your CPVC quarterly numbers and last year CPVC. Would you repeat it please in tonnage and value if possible?
- Sanjay S. Math:** CPVC is 2431
- Vipul Shah:** This quarter, June quarter.
- Sanjay S. Math:** This quarter 88 Crores.
- Vipul Shah:** And what was the same figure last year?
- Sanjay S. Math:** 882 tons and 29 Crores.
- Vipul Shah:** Okay Sir. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Achal from JM Financial. Please go ahead.
- Achal:** Thank you for the opportunity. My first question is if you look at the company, 70-75% of our resins are captively consumed. So just wanted to understand, is it to do with the capacity locations which is why we are not able to consume or we have to buy resins from outside and what is the difference in terms of the cost due to the logistic side.
- Sanjay S. Math:** I think we have surplus capacity on resin at present compared to what we can consume internally. Secondly we are buying resin from outside only for CPVC and the fitting grade so the other products are made by in house resin consumption.
- Achal:** Right understood. Another question, you mentioned that SWR pipes will be a driving factor for next few months.



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- Sanjay S. Math:** I think all non agri. I will say plumbing products and SWR.
- Achal:** Right, right understood. Sir can you elaborate a little bit on SWR pipes as to what kind of contribution we have, how many SKUs we have and how many plants?
- Sanjay S. Math:** I do not have the numbers.
- Achal:** But what kind of SKU or the mix you would like to see over the next 3 to 5 years.
- Sanjay S. Math:** Whabi do you have any numbers on this?
- Anil Whabi:** Total number of SKU is 2100 plus and this will keep on rising and the number going up will be more on the non agri space.
- Achal:** This 2100 is aggregate right?
- Anil Whabi:** It is aggregate of all.
- Achal:** How much would be agri out of that Sir?.
- Anil Whabi:** That I do not have. That split I do not have.
- Achal:** My another question was with respect to resin, we do hear that it has been a bit of a challenge for the smaller players and organized players to source resin, so just thought of taking your perspective on the same as to how is the resin availability in India and are you seeing a disruption and what is the outlook on resin price and rather let me ask what is the outlook on the global production side has things come back to normal and what is driving the price increase globally?.
- Anil Whabi:** I think the present prices are again hardening. They came down to 1350, today I think they are coming back to 1400. We see that the next 6 months that means this year and upto December the price range will be somewhere about 1300, 1400, lowest will be 1250 and highest could be 1450. In this range in this band that will move.
- Achal:** Just a follow up on that Sir. Thank you for the clarity. For FY2021 what would that import number be in terms of PVC resin import in terms of volume and how much of that in your view would be going for plastic side.
- Sanjay S. Math:** I think these numbers are published regularly by the import export department, every month these numbers are available and normally the total demand could be around 30 lakh tons of PVC out of that the internal domestic production is about 13 to 14 lakhs and the remaining is import. So about 16 to 17 lakhs comes from the outside, if any time there is drop in the supply from outside, the prices can fluctuate. At the same time demand also is not steady it is seasonal so all these factors together, seasonal demand of PVC and PVC pipes and the





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supply side constraints or demand side constraints will change the entire pricing pattern, but it will remain in one band may be 100 dollars plus or minus.

- Achal:** Of the total import how much would be going to plastic pipe is it 40-50% or is it 70-80%.
- Sanjay S. Math:** I think PVC has multiple applications but in India 70% goes to the pipe segment only. Multiple other sectors where PVC can go may be in foils, and then film and then lamination and various other thing, but they are all 4 or 5% each. Wires and cables one of things like PVC cables is again 6-7%. Now all this put together remains 30%, but main usage is 70% on pipes.
- Achal:** This was very helpful thank you very much.
- Moderator:** The next question is from the line of Ritesh Shah from Investec India. Please go ahead.
- Ritesh Shah:** Hi sir thanks for the opportunity. One is from capital allocation standpoint, are we looking to enhance our resin marking capacity or add more EDC ethylene to cover up on the VCM side any thoughts.
- Sanjay S. Math:** We told you about this last time also. We are not able to close out on few stocks which are very limited available and that is why we are not really able to take up any view on expansion at present.
- Ritesh Shah:** Sir should one assume that what you are referring to is more on the VCM side or it applies even for EDC and ethylene?
- Sanjay S. Math:** See everything is finally connected with ethylene because if you take EDC, EDC is made from ethylene and ethylene chlorination so ethylene is the main supply then you have EDC, EDC cracking one way we can go but the other route is where you can buy VCM and make PVC. So EDC route is a longer chain, VCM route is a shorter chain, but all depends finally from ethylene only that is how it will finally go.
- Ritesh Shah:** Sir secondly one of the larger players are groups in India they have announced nearly 2 million tons of PVC capacity in Gujarat and this is via carbide route and this group has captive coal, port everything so they will be lower on the cost also, so just trying to understand I think you indicated that the PVC manufacturing capacity in India is around 1.5 million tons and the demand is 3.3 so the gap is say around less than 2 million tons, so if hypothetically this capacity comes in wherein the cost for the company is lower than EDC, ethylene and VCM route what would it mean to our business model and secondly on the local premiums for PVC resin. Is it something which could be detrimental because they could potentially close in the gap of imports into the country?

**Sanjay S. Math:**

I think I will not talk about the new project that is coming up they must have definitely done their economics right and that is why they are going ahead with this project, but in general I will say that carbide route is not the new route it is old route, which is known. In India also I think initially when we started PVC it was on carbide route and that was one company in Bombay that was Calico which started earlier on carbide route, secondly VCM is still operating a carbide route. Now between carbide route and the ethylene route, the advantages of carbide route the capital cost is little lower but the operating cost is higher. Now operating cost depends upon how it works. I will just tell you, calcium coming from the limestone so you have limestone, you have coal and all that together and you make calcium carbide and this is a very high energy consuming process per tonne of calcium carbide requires about 3000 to 3500 kilowatt of energy, it requires 0.6 tonnes of coke and 0.9 tonnes of limestone. Now having made calcium carbide and then you crush it and treat with water and you make acetylene and acetylene is treated with HCL and HCL again made from fluoro alkyl plants that mean caustic chlorine plants and you burn hydrogen and chlorine that you generate as side products of caustic and then you make HCL and you react with calcium carbide to make calcium carbide-based acetylene and make VCM. The objection for this process came from the environmental issues as having this process using mercury chloride-based catalyst and mercury is heavy metal and which is banned for any use that is how that particular process was unacceptable earlier. Now there are developments which are happening that they are moving away from mercury chloride and barium chloride in another catalyst that is developing and this process is coming up very soon but possibly there will be an opening around this particular process which may be environmentally acceptable. At the same time the cost of calcium carbide based will depend upon energy cost so those who have got very cheap energy they only can complete not everyone so if you have captive mine of coal and you may get calcium carbide on captive and you also have cheap source for energy based on coal or any other source then only this becomes economically competitive. I think that is possibly will go but at the same it has got very high carbon footprint because you are going to use coal based power plant and you are also going to use coal based calcium carbide which also highly energy consuming and it will be having any carbon footprint so how environment clearance will come on this and how which is taken up. I think even China started because they do not have stocks but China gave this try of permissions to handle the calcium carbide goods and particularly on the eastern provinces of China lot of coal available so they gave mine based with calcium carbide permission and most of the PVC in China more than 50% of PVC was made from carbide at one point of time and then later on they put up the regulation and environmentally I think they stopped that so there is a blend between ethylene based PVC and calcium carbide based PVC but except China none of the other countries are in the carbide route possibly India may look at this if environmentally it is acceptable to the country.



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- Ritesh Shah:** Sure Sir thank you so much for detailed answer Sir. Just a few followup, Sir which is the other catalyst that you indicated besides mercury?
- Sanjay S. Math:** Barium chloride.
- Ritesh Shah:** Barium chloride okay that is one and Sir secondly if...
- Sanjay S. Math:** There are technologies which are coming up now and there may be different types of catalyst which are not based on heavy metals and may be acceptable catalyst, at present mercury chloride catalyst is contaminating all the products that are made out of this particular VCM.
- Ritesh Shah:** Sir my second and third question over here, Sir would there be any sense on basically how much will be conversion cost if it is on captive coal versus the conversion cost that we incur on VCM?
- Sanjay S. Math:** I think these are very difficult things to answer, what price are you getting coal at?. Today if you see coal is going up \$60-\$80, \$90 depending on the type, it is ridiculously high, it is highest favor possibly and you cannot say what is the market price of coal whereas what is the mining cost of coal, so that is where the whole thing will be, so someones cost of coal may be different than the other person's cost of coal.
- Ritesh Shah:** Right Sir is there any threshold above which the coal prices go the carbide route becomes unviable anything like that?
- Sanjay S. Math:** I think we do not have that kind of even economic setting.
- Ritesh Shah:** Sir, are we familiar with any capacity in China been taken down because of the high polluting carbide route which can incrementally give better pricing on PVC in a more structural ways days going forward, is there any feel of that, is all anything that you are hearing on?
- Sanjay S. Math:** We cannot say how China will respond to their demand of PVC at present there are more than 15 million tonnes and half of it is coming from carbide route, but that is consumed internally I think it is not coming out so if there is more demand whether they will go to Indian route or not I think it is up to them how they will be looking at whole things similarly in terms of carbon footprint and how the pressures will mount on that.



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- Ritesh Shah:** Perfect Sir. This is very helpful and Sir last question you indicated that agri percentage on volume terms 60%-69% for Q1, Sir can you give the same numbers for Q4 FY2021 and Q1 FY2021?
- Sanjay S. Math:** Q1 FY2021?
- Ritesh Shah:** Yes Sir prior quarter and corresponding period last year?
- Anil Whabi:** This agri and non-agri mix keeps on changing because of seasonality so during the last call you said for the year in 2018-2019 what was 70:30 has moved to 63:37 for the full year in terms of value.
- Ritesh Shah:** Sir just wanted to know in volumetric terms if you are due for Q4 FY2021 that will be fine I am just trying to understand the realization movement on sequential basis?
- Anil Whabi:** Volume terms it will be different.
- Ritesh Shah:** Sure Sir and I will followup on this with you separately. Thank you so much for answers.
- Moderator:** Thank you. The next question is from the line of Karan Bhatelia from AMSEC. Please go ahead.
- Karan Bhatelia:** Thank you for the opportunity and congratulations for a good set of numbers. Sir two things from my end, Sir currently are we facing any logistical challenges on the import of PVC resins?
- Sanjay S. Math:** We do not import PVC resins.
- Karan Bhatelia:** In general?
- Sanjay S. Math:** Yes generally, they were trade restrictions, container is also low and cost of the containers transport has also gone up, freight rates have gone up so there is limitation coming on that front but that has been general for everyone.
- Karan Bhatelia:** And is it where we have seen some rise in prices after a recent fall?
- Sanjay S. Math:** I do not think that is what is the reason may be there is some demand tailwind.
- Karan Bhatelia:** Okay and also Sir how is our channel inventory filling up given the fact that PVC prices are again started to firm up now so how is the reaction over there?



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- Anil Whabi:** Normally dealers do not keep large inventory it is only because of this reasonsbecause of the volatility of prices so they do not keep more than eight days inventory anyway so it does not make difference.
- Karan Bhatelia:** Okay one last question. Sir your presentation mentioned about some capacity increase in the pipes and fittings, can you throw some light on that?
- Sanjay S. Math:** Last time we said out pipes capacity is 370000 tonnes and it is still sufficient for the next one or two years., Once we see that there is gap coming, we will build up additional capacity incrementally.
- Karan Bhatelia:** Got it just asking you to mention that CPVC volumes of 3400 tonnes or 2400 tonnes?
- Anil Whabi:** 2400 tonnes.
- Karan Bhatelia:** Thank you that is it from my end.
- Moderator:** Thank you. The next question is from the line of Suresh, an Individual Investor. Please go ahead.
- Suresh:** I am international plastic trader and investor. Sir my question is basically as we go forward PVC resin and CIF basis may go up because there will be a high freight cost due to non-availability of the container. My question is why we typically convert PVC resin into a pipe when you can sell your PVC resin in open market? My question is things are going to be difficult on the logistics front here as I see personally because non-availability of container, PVC resin not coming from US and other sources, ultimately the imports in India will get dislocated because of the non-availability of container which will get manifested into higher CIR prices so why to convert if agri demand is not good, why to convert the resin into pipes, why not to sell in other merchant commodity in the market PVC suspension grade?
- Sanjay S. Math:** I think we answered this, whatever we consume in our in-house requirement, we consumed that anything is surplus available we sell it in the open market. We are only one manufacturer, which has got backward integrated resin manufacturer, all the resin manufactures do not have the pipe plants, all the pipe plant people do not have the resin plant so, we are the only one and this is as the different all others resin manufactures are selling resin only so this question does not really get relevant whether we should sell resin or we should sell pipes, we get into the end used market as our value chain is longer so we get and we can consume all our resin even if there is a demand contraction on resin, we continue to operate with our pipes.



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- Suresh:** Sir my question is, your capacity for PVC resin is 2.75 lakhs per annum how much you can basically produce, you mentioned, it is limited with the feedstock?
- Sanjay S. Math:** Yes we produced almost full. We normally more than 250000 tonnes, 260K-270K is maximum we reached up to 270K, depending on the VCM availability or some interruption on that so our capacity utilization in the operating rate definitely, it is normally 95% to 98% of operating rate.
- Suresh:** Sir my last question related to debt. What is the percentage of your fixed stock between EDC and VCM?
- Sanjay S. Math:** Out of this 270000, we may 150000 VCM and the rest of it is, we buy VCM.
- Suresh:** And source is Middle East?
- Sanjay S. Math:** Sources can be, yes Middle East some contracted volume and other it is more than we can fix spot volume also.
- Suresh:** This Captco is having excess EDC capacity?
- Sanjay S. Math:** I don't know exactly how it is. We are buying from Qatar. We have a long-term contract with Qatar.
- Moderator:** Thank you. The next question is from the line of Akhil Kalluri from Franklin Templeton. Please go ahead.
- Akhil Kalluri:** Sir couple of questions, first on the pipe division just want to understand in terms of what the company is doing on column pipe side over the past three or four years, you have done very well in terms of scaling up the CPVC portfolio but column pipe is probably a low hanging fruit where the company has a reasonably strong footprint, so if you can throw some light in terms of what the journey has been and what are the aspirations?
- Sanjay S. Math:** Having our column pipe sales were about 200 tonnes a month that is what is our present range of operation.
- Akhil Kalluri:** But if you can talk a little bit about the efforts of the company in terms of scaling that portfolio because that is something that the company has talked about in the past as well that column pipes is where you want to scale?

- Sanjay S. Math:** Column and casing. Casing is larger volume than this. Column and casing put together is about 2000 tonnes a month.
- Akhil Kalluri:** Right Sir but in terms of for example three to five years from now how large do you think this business can become?
- Sanjay S. Math:** I think we are also enlarging that portfolio. There is no limitation from our side in terms of operation, it is only the demand pick up has to come, we have to penetrate on that market already the market is flooded with the earlier players.
- Akhil Kalluri:** Right any estimation how large the market can be in terms of column pipe market and what is our market share currently in that segment?
- Sanjay S. Math:** I think it is difficult to say exactly it is on regional basis, column pipe is used for ground water. It all depends upon how the water availability is. Some states are very good on column particularly southern states, Tamil Nadu and Karnataka and some parts of Maharashtra, more or less Deccan plateau and southern part on the surface water so they have to go on ground water and ground water is the one where you use the column and casing. It is mostly south driven and depending on monsoon, the total demand fluctuates. If there is shortage of monsoon because there are two rainy seasons in the south, particularly in Tamil Nadu depends upon how the rainy season takes up.
- Akhil Kalluri:** Lastly if you can talk a little bit about the efforts of company, may be from people perspective, may be from expansion perspective, any steps the company has taken over the past few years on this segment. May be from a people perspective, in terms of hiring more resources, senior management to strength on column pipe side, any efforts on the company side?
- Sanjay S. Math:** Specifically not for any vertical that we are looking at. In general this is again more or less an irrigation product, it is more and more like agri product we have distribution setup for agri and that is the channel that we use.
- Akhil Kalluri:** Sure fair enough Sir. Second one is was on capital allocation Sir, almost Rs.600 Crores of cash, fairly healthy operating cash we touched upon the fact that from a capex perspective both on resin as well as pipe they might not be too much of outgo for the next couple of years so just wanted to understand if there are any other areas that the company could be exploring at the stage from capital allocation perspective if not then the payout ratios increase dramatically from current allocation.
- Anil Whabi:** Yes can you repeat it.

**Akhil Kalluri:** Question was basically we have recently large cash balance on Rs.600-odd Crores and operating cash is also fairly healthy and you just indicated that incremental capex in both resin as well as pipe is not going to be material over the next couple of years, just wanted to understand if you are thinking of any other areas that the company is exploring from capital allocation perspective if not can be payout ratios increase further from the current levels?

**Anil Whabi:** As we said last time we would look at possibilities of investing in some project but then if we do not invest in any project or new venture, then obviously the money will go back to the shareholders whether in form of dividend or buyback that will have to be seen.

**Akhil Kalluri:** Okay but if you can talk little bit about which are these segments, which are exploring at this stage?

**Anil Whabi:** There is nothing right now which is complete, we have been exploring.

**Akhil Kalluri:** Sure Sir and if you can squeeze in one last question, follow-up question which was asked by one of the participants in terms of the resin business and basically what is happening in China related to decarbonization so what you think is some of the other sectors like steel etc., there is a lot of emphasis around the decarbonization that the China putting in, so if you can give us some sense of what you think is happening on the PVC side as well and if you see this can drive meaningfully higher gains in medium term prospective in this business and any thoughts you may have on?

**Anil Whabi:** What is your exact question decarbonization by China?

**Akhil Kalluri:** Because of the decarbonization by China, you did emphasis that on the carbide base route obviously carbon emission is significantly higher so do you see a possibility that China will curtail the existing production if not I mean one is we will be stopping it from adding more plant the second is also curtailing the existing plants and because of that profitability of the entire PVC resin business go up structurally, do you see that as a possibility, can you talk about anything happening in China right now?

**Sanjay S. Math:** I think what we talk about is a bigger and larger issue about decarbonization and the entire remaining process or even in petrochemicals and other things carbon footprint will be there, it just cannot go into green energy and there are no technologies at present, ethylene when you make it has a got very high carbon footprint, it is there and that comparison is only relative comparison whether it is ethylene based on or it is carbohydrates base. How it climate changes ecosystem evolves across the globe and how people are more compelled to do that and how finally the products based on carbon footprint are valued then only this change will happen, otherwise it will not happen.



- Akhil Kalluri:** Sure thank you.
- Moderator:** Thank you. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.
- Amit Zade:** Thank you for opportunity team. My question is on the demand side so Sir what kind of demand are we seeing from government for this because we had seen government allocation all these schemes and all schemes have been doubled for FY2022 and extension to this question Sir assuming hypothetical if say 100% of the allocation is actually materialized on the ground so what kind of demand it can create in the existing pipe industry?
- Sanjay S. Math:** I think this particular quarter, there are lockdown so more or less all these projects are on hold so there is nothing like that that will drive the demand at present but Nal Se Jal or Awas Yojana which are all governments projects but they are driven by the state governments and more or less 23 states were under some kind of a lockdown in Q1 so there has been subdued demand in all this type of programs.
- Amit Zade:** Okay you also see the risk to this budgeted estimate...
- Sanjay S. Math:** I think definitely in a long-term basis both agri sector India's irrigation is only 40% of the cultivated land and more than 50% remains rain fed area so there is a demand which is going to be for the future even agricultural pipe whether it is the normal irrigation or it is borewell irrigation like column and casing that is one part. The second part is urbanization is increasing and population is aspirational, they want housing so housing sector demand is definitely going to go up and with the government supporting through Awas Yojana, or some other government programs, and I think this demand is going to be there. Long term if you see demand is going to be there, some of the aberrations that may happen at present cannot compare last year and this year what demands will come and these are short-term aberrations possibly once pandemic is over I think everything should be coming back.
- Anil Whabi:** More over demand for PVC pipes will progressively rise because this is for last mile connectivity that these pipes will be required in these projects.
- Amit Zade:** Thanks just a followup with this so if government is allocating Rs.100 for all these projects so what amount of demand it will transfer into pipes, 5% or 10% of this how should we look at this number Sir?
- Anil Whabi:** I think if you look at even housing sector, in housing what is the cost of contribution of pipes. It is 3% to 4% whatever I think we should not get too much of this, 3% to 4% of housing cost, this is what will be the piping requirement. You get my point?



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- Amit Zade:** Yes Sir got it. That is all from my side Sir.
- Moderator:** Thank you. The next question is from the line of Ishaq Khatri from Omkara Capital. Please go ahead.
- Ishaq Khatri:** I basically had this question, it is pretty basic in terms of you mentioned that we are one of the largest integrated players in the pipe segment and now we understand that PVC prices have been going up so our margins for resins have also increased because we have in house manufacturing of resin, but other than that in terms of margins and profitability for the pipe segment what kind of benefit do we get from this integration and how has it been over the years?
- Anil Whabi:** We have been reporting the two segments separately so if you talk of profitability since we transfer the material at the market price, there is no real benefit, only benefit is the quality supply and timely supply.
- Ishaq Khatri:** Okay, fair point also, if you could tell me what is the difference between the margins for agri and non-agri pipes because I believe agri is relatively lower so is there any difference for us as well?
- Anil Whabi:** Yes obviously in case of agri that end user is farmer so market prices are lower and margins are slightly lower compared to non-agri, non-agri margins are higher within non-agri CPVC margins are better, fitting margins are better.
- Ishaq Khatri:** Okay that is all. Thank you.
- Moderator:** Thank you. The next question is from the line of Arun Baid from BOB Capital Market. Please go ahead.
- Arun Baid:** Hi Sir you just mentioned that there will be some PVC prices going up because of the global hardening so do you think that will impact the demand Sir?
- Sanjay S. Math:** The demand will be coming up in Q3. Presently with the monsoon demand for agri and COVID 2.0 is also slowly receding so there will be opening up. There are certain uncertainties on COVID 3.0, the third wave and still total opening is not happening. I think Delhi and other states are just opening up I think may be just 15 days back they have opened up, so only the small-scale industry and other people who are normally buying from the domestic market so they will be one if they start the demand will pick up.



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**Arun Baid:** What I want to actually get to the fact is that, because you are seeing prices would be in the range of \$1250-\$1450 by now and December and the peak season for us from agri perspective starts from January-February so will that have an impact more so. I am not talking about quarters because this quarter always dull?

**Sanjay S. Math:** You are saying that whether it will have any impact in Q3 and Q4 that is what you are saying. I think it is still longer term to predict any kind of movement, particularly COVID 3 is not there across the globe then possibly everything will be opening up more and then the freight will also come down, the inter region trades also will change the entire pattern so it is unpredictable at present, uncertain. Let us not get into predicting so far away because the things also volatile and something giving guidance on that will be hoping this statement.

**Arun Baid:** And Sir earlier last time when we had the call, you were looking at volumes of ballpark effect 2020 volumes PVC pipe business so what do you think now based on what you are thinking what you are seeing, what kind of number we should look at for the full year?

**Sanjay S. Math:** I think what we should do looking at is definitely 10% to 15% increase over the last year that means whatever we did in FY2021 about 10% to 15% more, our attempt will be to reach the pre-pandemic let us hope that there is no COVID 3.

**Arun Baid:** Okay Sir thank you.

**Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

**Rajesh Ravi:** I just missed the prices for PVC resins which you mentioned earlier in the call for Q1 and last year Q1 and the current prices?

**Sanjay S. Math:** PVC resin prices for Q1FY2022, PVC is 1543 and Q1 FY2021 740 so, it is less than half and now last week 1360.

**Rajesh Ravi:** Sir this fall you are seeing even in the market that correct is there because off late we are hearing there is some recovery in prices so what is that trend you are looking at?

**Sanjay S. Math:** Today the ICIS is showing about 1400.

**Rajesh Ravi:** So this is demand supply dynamics globally, what is the outlook you are looking at for next six months?



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- Sanjay S. Math:** We feel that these prices will sustain like this for the rest of the year somewhere around 1300-1400 range, and lower side may be 1250-1450.
- Rajesh Ravi:** But not below that.
- Sanjay S. Math:** I think if you take 1350 as average then plus or minus 100.
- Rajesh Ravi:** Okay and Sir your realization in the PVC resins, do they move in tandem with average market price, this international prices that you report?
- Sanjay S. Math:** We are always at parity with international prices. Indian prices domestic prices for PVC are at same level as international prices.
- Rajesh Ravi:** So they move in tandem.
- Sanjay S. Math:** Exactly.
- Rajesh Ravi:** Any outlook on the CPVC resin realization, have they been moving up or are they to go up?
- Sanjay S. Math:** I think CPVC, our portfolio is growing and last quarter we did quite well, this quarter because of pandemic it has gone down but I think we will recover back on this.
- Rajesh Ravi:** That is great I am asking on the resins prices for CPVC or PVC pricing again as we have seen volatility in the PVC prices as well as resins, what are your outlook on the PVC price?
- Sanjay S. Math:** CPVC prices have not really moved as the PVC prices so they are more or less, they have gone up but not to the extent of the PVC prices. PVC prices have moved something like from average about \$1000 to \$1500 at one time that is 50% to that extent CPVC prices have not gone up by 50%-60%.
- Rajesh Ravi:** But any ballpark how much they have gone up?
- Sanjay S. Math:** They have gone up about 10% to 15%.
- Rajesh Ravi:** Okay versus last year average you are saying.
- Sanjay S. Math:** Yes.
- Rajesh Ravi:** And lastly fitting revenue you also shared during the call?
- Sanjay S. Math:** It is Rs.141 Crores.

- Rajesh Ravi:** And versus Y-o-Y?
- Sanjay S. Math:** Rs.56 Crores.
- Rajesh Ravi:** And March quarter how much it was Sir?
- Sanjay S. Math:** Rs.158 Crores.
- Rajesh Ravi:** Okay Sir that is from my side.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec India. Please go ahead.
- Ritesh Shah:** Hi Sir, very simple question if the PVC, EDC and VCM prices remain at the current level for the full of Q2 quarter, would we be looking at inventory losses in Q2?
- Anil Whabi:** See obviously there will be inventory losses because if you look at quarter-on-quarter the prices have come down, for pipes, resin as well.
- Ritesh Shah:** Okay Sir can you give some...
- Anil Whabi:** Delta also we have been reporting we have been reporting it has been coming down.
- Ritesh Shah:** Sir can you give more color like typically for Q2 our PVC resin production is more towards EDC route, I think last year was exception, but historically would that premise be correct?
- Anil Whabi:** Each year in Q2 it is more on the EDC route.
- Ritesh Shah:** Okay and Sir what you indicated that the last week prices for both EDC and ethylene I think it was 690 versus 709, and ethylene it was higher actually \$1005 versus \$991 so should one presume that there would be inventory losses because I think ethylene prices higher, but EDC prices are lower or is it like wait and watch on how it actually plays out.
- Sanjay S. Math:** I think our working is like this., We fill up all our tanks sometimes March to April and hold inventory for four months for monsoon because our jetty is out, all raw material prices are somewhere average of March April, you get my point. So present pricing are last quarter pricing are not so much of a relevance.
- Ritesh Shah:** Okay. Sure, that is helpful and Sir earlier we had spoken about basically the variable components of the marketing people. Is there any update on that particular matter?



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**Sanjay S. Math:** No Sir.

**Ritesh Shah:** Okay perfect. Thank you so much for your answers. Rituja do we have any further questions?

**Moderator:** We do not have anyone in the question queue.

**Ritesh Shah:** I would thank the management for giving Investec Capital an opportunity to host them and I will again hand over the call to Mr. Math for any concluding remarks please?

**Sanjay S. Math:** Thank you Ritesh. I hope we have satisfied all your query and we hope you are satisfied with what answers we have given. I also appreciate your interest in Finolex and you are support to Finolex and listing in Finolex. So we will look at your relationship going forward and thank you very much to all of you and thank you for your time.

**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.