



“Finolex Industries Limited Q2FY16 & H1FY16  
Results Conference Call”

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**MANAGEMENT: MR. PRAKASH P. CHHABRIA – EXECUTIVE CHAIRMAN,  
FINOLEX INDUSTRIES LTD  
MR. SAURABH S. DHANORKAR –MANAGING  
DIRECTOR, FINOLEX INDUSTRIES LTD**

**MODERATOR: MR. MILAN BAVISHI – S-ANCIAL GLOBAL SOLUTIONS  
PVT LTD**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Finolex Industries Limited Q2 FY16 Results Conference Call. 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 this conference call, please signal an operator by entering '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Milan Bavishi of S-Ancial Global. Thank you and over to you, sir

**Milan Bavishi:** Good afternoon. I, on behalf of S-Ancial Global Solutions welcome you to Finolex Industries Q2 and H1 FY16 Results Conference call. We have with us Mr. Prakash P. Chhabria – Executive Chairman and Mr. Saurabh S. Dhanorkar –Managing Director. I now hand over the call to Mr. Chhabria. Over to you, sir.

**Prakash P. Chhabria:** Good evening everyone and welcome to Finolex Industries Investor Conference Call. For Q2 FY16 the revenues net of interdivisional transfers were Rs.467 crores, 21% higher compared to Q2 FY15. EBIT was Rs.40 crores, 23% higher compared to Q2 FY15 and PAT was higher at Rs.42 crores, an increase of about 200% on year-on-year basis.

The sales volume for Q2 FY16 was PVC resin increased by 49% year-on-year to 41,512 metric tons and for PVC pipes and fittings increased by 29% year-on-year to 40,000 metric tons. In spite of a monsoon quarter, we have seen good demand for pipes and fittings and we expect the demand to grow further during the remaining part of the financial year.

The current quarter results include benefits under packaged schemes of incentives, industrial promotion subsidy of Rs.74 crores accounted for as capital reserve and electricity duty exemption amounting to Rs.24 crores for earlier periods accounted as income.

The Government's thrust on irrigation as seen by various programs being put in place by them will further boost the requirement of PVC pipes and fittings. We are ramping our pipe production capacity to meet the increasing demand and also strengthening our distribution reach. As planned, we will continue to reduce debt on our books.

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

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Anshuman Atri from Espirito Santo. Please go ahead.

**Anshuman Atri:** My question is regarding the second half and the next year, what kind of traction you are seeing in both construction as well as the irrigation sector and kind of Government initiatives taken in Maharashtra, Telangana and other regions?

**Prakash P. Chhabria:** Let me start by agriculture. You see, agriculture has been our strong domain and continues to be a big driver to our top-line and bottom-line and our growth in that is very good and just like you mentioned Maharashtra, Telangana and all these states. So there is a lot of demand which is coming up and like I mentioned in my opening remark usually our monsoon quarter is low in

volume but this year the volume growth has been good and that is why we are very confident that for the coming quarters, not just the next two quarters but for the coming quarters we think it will play a very important and a big role. Coming to plumbing pipes, well, we were a late entrant in that so we are growing in multiples over there and I still see a good demand. Most of the time people talk about real-estate being down which might be fact because of high-end real-estate but if you look at low end real-estate where you have more dense people, more residential reviewing that means there is more demand of piping, so therefore that business is actually better for us. So we are very happy, going ahead we look at demand as a very-very good demand and we are working hard in meeting the demand.

**Anshuman Atri:** And recently I visited your Aztec and there were a lot of new product launches both in CPVC as well as PVC, so could you give us some guidance in terms of what all new products we can expect as well as some marketing initiatives which we have talked about to sales personnel there as to new products which may be brought under the Finolex brand.

**Saurabh S. Dhanorkar:** We are focusing right now still on PVC pipes and fittings, we are always looking at newer products, I mean something which is not related to PVC pipes and fittings but related to our business. So we are talking to two, three companies in that front but nothing really has materialized. So in our focus on increasing the range of fittings we are adding about close to 150 brand new fittings which were not in our portfolio and that rollout should happen in the next two to three months. So we are working very aggressively on increasing our product range in our core business. Similarly, distribution is very important, we have been able to streamline our three warehouses, Cuttack, Indore and Noida and that has given us a lot of benefit, we see a lot of encouragement so we are going to be adding another three, four in the next three to six months. All this put together I think is only going to help us grow faster and better.

**Anshuman Atri:** Sir just one last question is on the trends on the spreads between PCV and Ethylene and EDC, how is the trend going forward?

**Prakash P. Chhabria:** Trend going forward right now as we talk is getting better, it had narrowed down in the second quarter but now already it has opened up so we are already seeing it visible, so I think it is only going to help us. Like I said earlier also, if there is a sudden drop in raw material prices or if there is a sudden drop in dollar rupee or if there is a sudden drop in top line those jerks are difficult to handle. But if it is range bound, a drop or an increase is range bound either in the raw material or finished product or even in dollar rupee is very good for the company, it helps with the demand and it helps with us meeting our requirement.

**Moderator:** Thank you very much. Our next question is from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

**Nehal Shah:** Sir, sticking to this volume growth, how much of the volume growth is attributable to the low base effect or is it really attributable to the increasing demand for the quarter?

- Prakash P. Chhabria:** No, I would say both, I would not like to restrict by saying it is only for this only for that but it is for both and what has happened is we are seeing demand coming up from across the country, it is not just from one area so therefore I think it is both.
- Nehal Shah:** And sir the EBIT margins have gone down by a couple of percentage points sequentially as well, so are normalized margins in PVC pipes and fittings was to the tune of anywhere between 8% or 9%, so we have fallen off that and we are now at 7% odd level. So can you just throw some light on the contraction in margins?
- Prakash P. Chhabria:** No, like I mentioned earlier to the gentlemen from Espirito is that our delta did get narrowed down in the second quarter and therefore you will see that being reflected in the EBITDA margins. But the way I look at EBITDA, EBITDA does not capture all other efforts in interest cost and inventory carrying and all that, if you look at PAT I mean I am not even talking about the 24 crores we have received from the government, but if you look at the working of the company on PAT basis we have done a fantastic job I think.
- Nehal Shah:** And sir what is the PVC cost and the inventory which you are carrying at this point in time?
- Prakash P. Chhabria:** PVC cost?
- Nehal Shah:** Yes, the PVC price per ton.
- Prakash P. Chhabria:** About \$815 per ton.
- Nehal Shah:** And if we translate that into per kg in INR terms?
- Prakash P. Chhabria:** It will be about Rs.63, Rs.64 per kilo.
- Nehal Shah:** And the current running rate is also near to that levels?
- Prakash P. Chhabria:** Yes, yes.
- Nehal Shah:** So that means you are almost approaching the normalized realization?
- Prakash P. Chhabria:** Absolutely.
- Nehal Shah:** So I think from this quarter onwards the realization growth will also come under control, the de-growth which was there in the last couple of quarters would now normalize from this quarter onwards?
- Prakash P. Chhabria:** Absolutely.
- Moderator:** Thank you very much. Our next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

- Maulik Patel:** Sir a couple of questions. If you can give me breakup between the pipe and the fitting, what could be the growth in fitting volume sir?
- Saurabh S. Dhanorkar:** Fittings in the corresponding quarter last year was about 2,500 tons, this year we have done about 3,500 tons.
- Maulik Patel:** So that's most around 40% kind of growth?
- Saurabh S. Dhanorkar:** Yes, that is a good growth, the more than 30% growth. And as a percentage of the total sales value wise last year we had about 13%, we are going to 16%, so we are moving up steadily and volume wise also as a percentage of total sales we are close to 9% now.
- Maulik Patel:** And sir in terms of revenue what could be that number, because last year if I recollect it was around 42 crores kind of a number.
- Saurabh S. Dhanorkar:** Yes, actually it is about 56 crores.
- Maulik Patel:** And can you give me the number for Q1 FY16?
- Saurabh S. Dhanorkar:** Q1 FY16 value wise almost the same, in fact both were almost the same.
- Maulik Patel:** 56 crores?
- Saurabh S. Dhanorkar:** Yes, yes 56 and 3,500, so despite being a monsoon quarter we have been able to sell the same quantity of fittings.
- Maulik Patel:** And sir we have like almost grew by about 29% in volume term and that is being seasonally a weak quarter for us, but our margin expansion and there is also a 40% growth in fitting, but our margin just moved from 7.7% to 7.9%, is it like we are expecting a significant jump going forward or is there any some kind of inventory loss in that pipe business this year?
- Saurabh S. Dhanorkar:** No, there was no inventory loss but monsoon period traditionally as an industry we tend to give discounts, so that is not really indicator of the pricing power, the real pricing power starts in September onwards and you will definitely see better margins coming in the coming quarters.
- Maulik Patel:** And how much of this lack of monsoon has played out in terms of growth being little bit early because the lands were not wet so farmers could have probably started purchasing the pipe early, is that in a significant contribution in growth?
- Saurabh S. Dhanorkar:** Yes, as Mr. Chhabria said there are both the factors, one of course is because the monsoon this year was weak so people started, or that big negative effect did not come. But even otherwise we are seeing good traction coming from Gujarat, Telangana where there is real good strong demand coming up.
- Maulik Patel:** And that is because of the irrigation network expansion taken by both the states?

- Saurabh S. Dhanorkar:** Correct.
- Maulik Patel:** Sir our biggest market is Maharashtra, how that is doing because we have been hearing a lot about the growth in Maharashtra has been very weak over the last few quarters.
- Saurabh S. Dhanorkar:** Yes, that's true in fact because we are pan India and we are selling all over India, we are managing to show this growth despite Maharashtra not being very strong, you are right Maharashtra because of monsoon and because of the Government being slightly slow compared to other states in pushing irrigation the growth in Maharashtra has not been very strong. Going ahead we see Maharashtra catching up with other states and fundamentally we see a very-very strong potential in Maharashtra also.
- Maulik Patel:** Sir one question on the balance sheet, in this particular loans and advances, the long-term loans and advances has increased by almost 70 crores on a half year basis.
- Saurabh S. Dhanorkar:** Yes, that is this if you have seen the capital reserve entries we had already done the expansion in Ratnagiri for PVC pipes and captive power but our application for getting this industrial promotion subsidy under mega projects was pending which got finally sanctioned in September, so this 75 crores is something which has been sanctioned but we received that partially in October and partially will be coming in the next year. So that 75 crores is shown as receivable on the balance sheet and as capital reserve on the other side.
- Maulik Patel:** And we will receive the end of this financial fully?
- Saurabh S. Dhanorkar:** Yes, surely.
- Maulik Patel:** And this is going to be one time, there is not going to be a recurring on that?
- Saurabh S. Dhanorkar:** There will be a recurring, this is for the past periods we got and we will get about 15 crores to 20 crores every year for the next three years and there is also an electricity duty exemption which is about 5 crores to 6 crores every year till 2026.
- Maulik Patel:** But that will be considered as P&L statement or it will be considered in balance sheet?
- Saurabh S. Dhanorkar:** Electricity duty will come in P&L, the industrial subsidy will go to balance sheet.
- Maulik Patel:** So the 5 crores, 6 crores will come to the P&L and the remaining 15 crores, 20 crores will go to the balance sheet?
- Saurabh S. Dhanorkar:** Correct. So basically of course it will add to our cash kitty and the indirect effects of all that will obviously by reducing debt or whatever will come on the P&L, but directly the 75 crores plus whatever we get this year will keep going to the balance sheet.
- Maulik Patel:** And sir in terms of this three new warehouses Chhabria sir mentioned about across the country, so basically are we taking on a lease or how is the business model on the warehouse side?

- Saurabh S. Dhanorkar:** Yes, these are leaves, we are not owning any assets, these are all leaves, so our fixed cost is very low.
- Maulik Patel:** And the CAPEX for this year and next year if you can?
- Saurabh S. Dhanorkar:** See it is the same, whatever guidance we have given.
- Maulik Patel:** No change in that right?
- Saurabh S. Dhanorkar:** No, 30 to 40 crores same.
- Maulik Patel:** And sir last question on the spread side, now what is the sense you are getting on EDC, is that the capacity expansion which we talked earlier is finally coming or the supply is supposed to be increased or the EDC trade was supposed to increase significantly, is that happening?
- Saurabh S. Dhanorkar:** Yes, that is happening. See basically during Q2 our spreads were again squeezed a little because...
- Maulik Patel:** Because of the lower falling crude price.
- Saurabh S. Dhanorkar:** Yes, crude price and of course we had purchased EDC before monsoon, so it went up and again it came down, but today EDC is below 200, spot we have already bought EDC at below 200 whereas PVC continues to be at around 850, so the spreads have really opened up now. So overall we expect spreads to remain above \$600 which are good healthy spreads.
- Moderator:** Thank you. Our next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir first question was regarding margins, I was just looking at our margins on a year-on-year basis basically breaks up realization on a per ton basis and if one compares it with other industry players the drop that we see on a year-on-year basis is far more significant. So if you could please explain, so we understand basically Finolex we commend a premium pricing but if you look at on a year-on-year basis it is a sharp drop, so is it a onetime phenomena or how should one look at it?
- Prakash P. Chhabria:** Two things, first of all Finolex is stronger in agriculture and therefore 30% is only the non-agri part whereas most of the other people are in the non-agri part and PVC prices which have dropped compared to last year which got effected into the pipe price has been basically for the agri component and therefore if you, because I have not seen now how much drop the other people have done but that is how it has dropped. But what we have done is even though the PVC prices have dropped from last year to this year, the pipe prices have not gone down as much which means we have been able to maintain some of the drop in the PVC prices into the pipe margins.

- Ritesh Shah:** Second sir, in the previous question you did mention current EDC prices, if you could provide some details on what the current EDC, ethylene and VCM prices are and what will be the average cost of inventory for each of the raw material that we have?
- Saurabh S. Dhanorkar:** Yes Ritesh, see EDC as I said currently has come down to below \$200 that is in October after we opened the jetty but the last quarter of course we were stuck with whatever inventory we had. So currently EDC is around 190, ethylene did drop to below 900 but currently it's stabilized around \$1000, PVC is at 850 and VCM is around \$690 to \$700.
- Ritesh Shah:** And sir how much was the average cost of inventory for VCM, ethylene, EDC that we have right now?
- Saurabh S. Dhanorkar:** No, by of end of September we exhaust all the inventory so it is all new buying now.
- Ritesh Shah:** So there is no question of inventory gains incrementally, it will be purely what we buy?
- Saurabh S. Dhanorkar:** Correct.
- Ritesh Shah:** Sir just two questions, you did indicate that there were a lot of benefits coming through the three warehouses, so if you could please provide some color on the volume growth front, how it's exactly helping us because it will be good from a dealer point of view given he won't have to maintain ones stocks. Given this is the status do you expect to revise the volume guidance for 2016, 2017?
- Saurabh S. Dhanorkar:** No, depot is one, of course Cuttack depot has fully established, it has been more than a year since it has been there so in that region we have seen almost 40% growth. Noida and Indore are ramping up the volumes but overall these depots are mainly to cater to the fittings demand, overall volume growth we still maintain 15% plus for the year.
- Ritesh Shah:** And sir lastly CPVC volumes and value for this quarter.
- Saurabh S. Dhanorkar:** CPVC I think last year corresponding quarter we did about 475 tons, this year we are at around 800 tons, so about 65% growth, that's pipes. And fittings we have almost doubled from 100 tons to 200 tons.
- Ritesh Shah:** So would it be possible to give revenue numbers?
- Saurabh S. Dhanorkar:** Revenue numbers I do not have, I will have to get back to you.
- Moderator:** Thank you very much. Our next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Sorry to be a bit late on the call, I was logged in 10 minutes late by the conference call provider, so my questions could be a bit repetitive. Having said that, my questions were more on the lines of margins, I missed out some of the answers which you could have given earlier. So just wanted



to know on the margin front on both the counts, while the PVC spread also, the PBIT per ton seemed quite disappointing in that sense, so could you give some elaboration on what happened to the margins in both the segments?

**Prakash P. Chhabria:** I think you missed the answer which somebody had already asked the question for, the PVC margins were affected because of the delta getting squeezed a bit because we had bought the raw material before monsoon, then the prices went up and then they came down again. So the average delta for EDC, PVC was around \$525 against \$600 last year and that has now improved to again almost \$650 post monsoon.

**Kashyap Pujara:** So 600 USD delta and now currently it is at 650?

**Prakash P. Chhabria:** Yes, currently PVC is at 850 and EDC has come below 200.

**Kashyap Pujara:** So in this quarter the average EDC cost that I would have booked would be what in the current quarter which went by?

**Prakash P. Chhabria:** In the quarter which went by it was around 280 or something.

**Kashyap Pujara:** That is what we have booked?

**Prakash P. Chhabria:** Yes, but that is over now, that is what we had booked before monsoon, by end of September it has all exhausted now, so now what we are using is the current prices.

**Kashyap Pujara:** So right now we are building the inventory at 190?

**Prakash P. Chhabria:** Correct, 190, 200.

**Kashyap Pujara:** And ethylene last quarter Q2 what would be the average?

**Prakash P. Chhabria:** Q2 average was around \$1,250.

**Kashyap Pujara:** Which is also now \$1,000?

**Prakash P. Chhabria:** Yes, the prices came down to lower to 900 and currently stabilized around \$1,000 now.

**Kashyap Pujara:** And what is the PVC average?

**Prakash P. Chhabria:** PVC currently is now 850.

**Kashyap Pujara:** And last quarter what would have been the average for us?

**Prakash P. Chhabria:** Last quarter was around 800.

**Kashyap Pujara:** And VCM similar last quarter average?

- Prakash P. Chhabria:** VCM basically the delta has been around 140, 150 same, VCM, PVC has been steady.
- Kashyap Pujara:** So key thing is that now we are building up inventories of ethylene and EDC at a lower point?
- Prakash P. Chhabria:** Yes.
- Kashyap Pujara:** So that spread should open up in the quarters going ahead?
- Prakash P. Chhabria:** Correct.
- Kashyap Pujara:** And any which way from a peak perspective H2 second half is much stronger in terms of volumes on the PVC front, so essentially we are building the inventory at the current point, it should surely hold us up in numbers in the coming half?
- Prakash P. Chhabria:** Correct.
- Kashyap Pujara:** And on the pipe front, fantastic volumes, 30% growth is very encouraging and whatever I had met up with a lot of dealers...
- Moderator:** Sir, I think the call has by mistake probably gone on hold. Yes, we can move on to the next question, the next question is from the line of Mr. Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Most of my questions have been answered, just have one more, last time sir indicated that we would be consolidating the investment which we have in the micro irrigation subsidiary, so is it possible to get a half yearly numbers of how the performance has been on that subsidiary?
- Prakash P. Chhabria:** No, we do not have it right now.
- Viraj Kacharia:** So is it possible to follow-up after the call, I mean can I?
- Prakash P. Chhabria:** Yes, sure.
- Moderator:** Thank you very much. Our next question is from the line of Kalpesh Goti from Walfort Financial. Please go ahead.
- Kalpesh Goti:** Sir what was your average spread in Q2?
- Saurabh S. Dhanorkar:** EDC, PVC was 525.
- Kalpesh Goti:** And what was for the month of October?
- Saurabh S. Dhanorkar:** October currently it is around \$650.
- Kalpesh Goti:** Sir can you give the internal PVC sales volume amount?

- Saurabh S. Dhanorkar:** Internal?
- Kalpesh Goti:** Yes, yes internal sales.
- Saurabh S. Dhanorkar:** For the quarter internal was about 24,000 tons and external about 17,500 tons.
- Kalpesh Goti:** And amount sir?
- Saurabh S. Dhanorkar:** Amount internal 145 crores and external 113 crores.
- Moderator:** Thank you very much. Sir we have Kashyap Pujara from Axis Capital back. Please go ahead.
- Kashyap Pujara:** Sorry, I think there was a call drop. Just wanted to check on the margins on PVC pipes, because I felt that the margin should have been higher than the current reported number given that we have already converted most of the dealers to our fittings, so what is the update on that?
- Saurabh S. Dhanorkar:** Yes, I think Kashyap you missed the answer for that one also, basically monsoon period is not really the quarter where you consider margins as normal because there are some off season discounts prevailing. So I think the real test of the margins comes in Q3 and Q4 and currently we are confident of getting better on the margins.
- Kashyap Pujara:** So overall we still hold by whatever we have communicated earlier both on margins front and the volumes front?
- Saurabh S. Dhanorkar:** Yes, if not better.
- Kashyap Pujara:** And just one more thing was about the external sales, I think you just mentioned that external sales were at 17,500 tons, wanted to understand what were the sales from the Gujarat plant?
- Saurabh S. Dhanorkar:** No, we are talking about PVC, that was external sales in PVC resin.
- Kashyap Pujara:** Correct, but the thing is that essentially we would be procuring PVC from the nearby producer in Gujarat which is Reliance, so essentially while Gujarat sales would be showing up as external purchase it would still be that we are trading PVC from here whereas we are procuring it from Gujarat, so to that extent it is more like consolidated numbers should be including both.
- Saurabh S. Dhanorkar:** Yes correct, so Gujarat is almost entirely bought out PVC and partially for even the Pune plant whenever there is an arbitrage opportunity we buy from the market.
- Kashyap Pujara:** And just wanted your sense on this part, the electricity duty and the capital reserve, I missed that one also in the earlier 10, 15 minutes, could you just give me a small elaboration there as to what is that and how long are we supposed to get it?
- Saurabh S. Dhanorkar:** See, we had done the expansion of PVC resin, PVC pipes and captive power plant and our application for getting mega project status was pending with the government. So finally we got

the approval only in September, this gave us about 75 crores worth of refund of sales tax which has been sanctioned, we are yet to get the money in our hand, partly we got in October and partly we will be getting by December. So the 75 crores pertains to the sales tax amount and 24 crores is the electricity duty exemption for the earlier periods, so going ahead till 2026 we will be exempted from paying electricity duty which will be an impact of about 5 crores to 6 crores every year which will go to the P&L account. And whatever we get for the remaining three years for the sales tax benefit that we will take it to the capital reserve account as per the Indian accounting standards.

- Kashyap Pujara:** So essentially with that capital reserve that will come in we will be straight away retiring that?
- Saurabh S. Dhanorkar:** Correct.
- Kashyap Pujara:** And this will be like for electricity front it is a 5 crores to 6 crores per annum for the next 10 years?
- Saurabh S. Dhanorkar:** Yes.
- Kashyap Pujara:** And 75 crores, anything additional apart from that pending or this is the final?
- Saurabh S. Dhanorkar:** No, we will get another 15 crores to 20 crores every year for the next three years.
- Kashyap Pujara:** Oh! Apart from 75 we will get 15 to 20 per year, that will straight go to the capital account?
- Saurabh S. Dhanorkar:** Yes.
- Kashyap Pujara:** And lastly I saw significant reduction in capital employed in the PVC division from 716 crores to close to 430-odd crores, so could you explain that, I mean what was that reduction all about?
- Saurabh S. Dhanorkar:** Two things, one of course during monsoon by the end of September we are low on inventory, whatever inventory we have piled up before monsoon inventory volume wise is lower, plus the prices were lower compared to the corresponding year last year so overall that has brought down the investment in working capital.
- Kashyap Pujara:** So for the full year if I were to get a color on capital employed, if I were to look at it from a March number would the capital employed in PVC division remain around current levels given the current pricing?
- Saurabh S. Dhanorkar:** No, because the inventory at 30th September it is at a very low level, normal inventory will be slightly higher, so the overall capital employed should be higher by about 100-odd crores.
- Kashyap Pujara:** So basically by March we will build up inventory for the two accounts for the closure of wood that we have during the...
- Saurabh S. Dhanorkar:** Correct, we will start building up inventory, correct, but that's a annual phenomena.

- Moderator:** Thank you very much. Our next question is from the line of Saket Kapoor form Saket Kapoor Company. Please go ahead.
- Saket Kapoor:** Sir I also missed the earlier part, although I have got other details. Sir, first of all, did we have any inventory losses also that we had to book for this quarter as it was told that we have no other pending raw materials, so mark to mark the inventory losses?
- Saurabh S. Dhanorkar:** No, no inventory losses this quarter.
- Saket Kapoor:** No inventory losses, there were no notional losses?
- Saurabh S. Dhanorkar:** No.
- Saket Kapoor:** Even on the FOREX front also sir?
- Saurabh S. Dhanorkar:** No, nothing.
- Saket Kapoor:** And sir just to get a sense, this quarter was particularly the monsoon quarter, so going up the second half is going to be much more heavier in terms of the volume and this should be treated as a seasonal item?
- Saurabh S. Dhanorkar:** That's right.
- Saket Kapoor:** And sir in the second half are we augmenting any capacity, for the new fresh capacity that is coming up in to play?
- Saurabh S. Dhanorkar:** Yes, we still maintain our guidance of 30,000 tons during the year so that has started coming in and it will happen during the year.
- Saket Kapoor:** That will come totally for the December quarter we will get one-fourth of the 30,000 or is it going to play out in the phase manner?
- Saurabh S. Dhanorkar:** No, it will all come in the next two quarters, so maybe 15,000 each quarter you can consider.
- Saket Kapoor:** So that is the additional revenue we are going to get over overall whatever we have done so far?
- Saurabh S. Dhanorkar:** That is the capacity of course, we do have external capacity because in the pipe business considering the peak and slow season we have to have ideal capacity, so it is not that 30,000 tons will straight away go into production but that will help us in meeting extra demand as we go ahead.
- Saket Kapoor:** And now coming to the CPVC part sir, are we the only player in the CPVC segment in the country currently?

- Saurabh S. Dhanorkar:** No, no there are many players, in fact we are a late starter so we are catching up, there used to be a few players but today there are more than 50, 60 players in CPVC.
- Saket Kapoor:** So this is not the specialized play, I am wrongly informed?
- Saurabh S. Dhanorkar:** No, not any more.
- Saket Kapoor:** And sir what is the price differential if we take the current PVC price and the CPVC, are they same comparable in terms for that?
- Saurabh S. Dhanorkar:** No, CPVC is a different raw material altogether, so the raw material price is different and the selling price is different, so selling price wise CPVC is almost double that of SPVC.
- Saket Kapoor:** But are the margins much more better in this segment sir due to command?
- Saurabh S. Dhanorkar:** Margins are better.
- Saket Kapoor:** They command a higher margins?
- Saurabh S. Dhanorkar:** Yes.
- Saket Kapoor:** Okay. Sir my last question sir, the balance sheet has improved considerably sir, we are down in the short-term borrowing, long-term borrowing, sir what are the current maturities payable for this year also?
- Saurabh S. Dhanorkar:** Current? Sorry, I did not get the question.
- Saket Kapoor:** Current maturity sir, what is the debt maturing now?
- Saurabh S. Dhanorkar:** We have only about 160 crores of long term-debt and about 200 crores of term debt, so long-term debt will keep coming down quarter-on-quarter but short-term debt of course is a function of how much inventory we are carrying, typically end of September we are very low on inventory because we come out of the monsoon period, but as we go towards March there is some inventory buildup. But overall if you compare this March 2016 to March 2015, definitely the capital employed will be lower and borrowing will be much lower. So we are on track in our declared objective of bringing the debt down.
- Saket Kapoor:** And sir there is also significant increase in the cash and cash equivalent amount, sir is it relating to subsidy that we have received on that Ratnagiri part?
- Saurabh S. Dhanorkar:** Partly we have received partly it is yet to come.
- Saket Kapoor:** That is contributing to this increase in the cash I think so, from 12 crores to....
- Saurabh S. Dhanorkar:** And also there has not been much CAPEX, whereas the cash generation is good.

- Saket Kapoor:** Sir what have been our total investment in this Ratnagiri project for which are receiving now the subsidies?
- Saurabh S. Dhanorkar:** This is what we are receiving now is for expansion, so the total investment was about 400-odd crores.
- Saket Kapoor:** And out of that we have received around commitment for 75, that will be receiving by March?
- Saurabh S. Dhanorkar:** Correct.
- Saket Kapoor:** And then every year we will be receiving 15 crores?
- Saurabh S. Dhanorkar:** 15 crores, 20 crores yes.
- Saket Kapoor:** For how many years sir that is?
- Saurabh S. Dhanorkar:** For the next three years.
- Saket Kapoor:** And electricity is different, you have already explained for 5 crores benefit that we have.
- Saurabh S. Dhanorkar:** Yes.
- Saket Kapoor:** Sir now the PVC trends, what were the PVC prices for last year average for the September quarter sir in first half?
- Saurabh S. Dhanorkar:** No, this year average has been around, for the quarter was around a little over 800 and currently it is around 850 and last year was higher frankly I do not have the last year's numbers.
- Saket Kapoor:** And what was for the June quarter, for June 2015?
- Saurabh S. Dhanorkar:** June 2015 prices were more like around little lower than 800.
- Saket Kapoor:** So the prices have moved up even during the quarter?
- Saurabh S. Dhanorkar:** Yes.
- Saket Kapoor:** So it is mainly due to this higher EDC that we were holding on that the margins were low for the spread?
- Saurabh S. Dhanorkar:** Correct.
- Saket Kapoor:** And that is going to even out sir?
- Saurabh S. Dhanorkar:** Yes, now the EDC has come down and PVC is still holding there, currently the margins are looking good.

- Saket Kapoor:** EDC we have booked for what period out of our total capacity?
- Saurabh S. Dhanorkar:** Now October onwards we start booking on a one-to-one basis, so currently it is not that, we do not start piling up inventory now.
- Saket Kapoor:** So we have booked on a one month forward basis?
- Saurabh S. Dhanorkar:** Yes, one month forward basis.
- Saket Kapoor:** And forward contracts are also available in this?
- Saurabh S. Dhanorkar:** No, EDC there is no concept of forward contracts.
- Saket Kapoor:** Meaning price trend we cannot get an idea?
- Saurabh S. Dhanorkar:** No.
- Saket Kapoor:** But crude prices remaining softened in this period also we expect...?
- Saurabh S. Dhanorkar:** Yes, but EDC is expected to remain low because there is lot of material available now.
- Saket Kapoor:** New capacities are also coming I would say?
- Saurabh S. Dhanorkar:** Yes.
- Saket Kapoor:** Sir on the taxation front, my last question sir, for this 24 crores exceptional which we have booked is the same rate, meaning normal tax rates are applicable or we have to pay lower tax rate for that?
- Saurabh S. Dhanorkar:** No, there is obviously theory that this can be also treated as a capital received but that we will only come to know when we actually file the returns but otherwise we have provided for normal full tax rate on this.
- Saket Kapoor:** And other income sir, apart from 14 crores sir what will be attributed sir, from 8 crores and 9 crores it is up to 14 crores for this quarter significantly higher?
- Saurabh S. Dhanorkar:** Part of it was 4 crores to 5 crores was because we got refund of income tax along with interest, so that is interest on our income tax refund, fresh we will have to get back to you on what it is.
- Moderator:** Thank you very much. Our next question is from the line of Andrew Coger from Equinox. Please go ahead.
- Andrew Coger:** Sorry if you already answered this, but you mentioned that in the monsoon season there is normal discounting that you do, I was curious if you could quantify how much you discount from your



normal pricing during the season and whether the degree of discounts this year was more or less than in years past?

**Saurabh S. Dhanorkar:** Normal, of course there is no perfect size to this that during monsoon we do extended discounts of x percentage, but this year we have been about 4% to 5% lower than the normal pricing which has now come back, so the pricing has improved now post monsoon. Last year may have been slightly lower, not materially different.

**Andrew Coger:** So you mean lower like a bigger discount or lower like...?

**Saurabh S. Dhanorkar:** No, lower like lower discount probably.

**Andrew Coger:** And just to understand a bit more, the reason you do this is because farmers may not invest in irrigation during this period so you have to stimulate demand in which way?

**Saurabh S. Dhanorkar:** Yes, primarily that because if the farmer is waiting for the monsoon to end and the if he is going to buy and if I am carrying inventory then it is worth giving away some discount and liquidating the stock than carrying the inventory and selling at higher price later on, so we take that call on a day to day basis and decide.

**Andrew Coger:** And what percent of your dealers at this point are selling your fittings?

**Saurabh S. Dhanorkar:** Now I think only about 3% to 4% would be remaining, rest of them are back to our old now.

**Andrew Coger:** So a dealer now that is only selling Finolex are they up to kind of normalized volume levels of fittings or is this still a ramping up process?

**Saurabh S. Dhanorkar:** No, the ramping up will happen now because currently this was still monsoon period right, so the real demand will come now, typically we say post Diwali we have this festival next month, so post Diwali the real demand picks up so that is when. But agreement wise and loyalty wise I would say 96% of them are onboard now and that is why we have seen a significant increase in fittings, despite being a monsoon quarter we have done almost the same volume as the first quarter and quarter-on-quarter if you compare to last year we have more than 30% growth. So our measures are working now.

**Moderator:** Thank you very much. Our next question is from the line of Vipul Shah from Sumangalam Investments. Please go ahead.

**Vipul Shah:** My question is, sir what is your experience generally volume of pipe is how much higher in the second half as compared to first half?

**Prakash P. Chhabria:** At least by 15% to 20%.

**Vipul Shah:** And sir pre-monsoon, I missed on that part, you booked EDS at what price, 280-290 if I have understood correctly?

- Prakash P. Chhabria:** Correct, before the jetty closure.
- Vipul Shah:** Yes, and right now it is ruling at 190, right?
- Prakash P. Chhabria:** That is correct.
- Vipul Shah:** And my last question, what is the value addition we are getting in fittings, I mean margin wise?
- Prakash P. Chhabria:** About Rs.15 to Rs.20.
- Moderator:** Thank you very much. Our next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Sir, again on this monsoon, if monsoon remains weak the farmers income gets impacted and how does that behave to the pipe volume in the medium-term?
- Prakash P. Chhabria:** You are saying, if the monsoon is less then how is the purchasing power of the farmer?
- Maulik Patel:** Yes, it gets reduced right substantially?
- Prakash P. Chhabria:** It has reduced but what has also happened, if you will see, PVC prices have dropped from last year to this year, so same meter of pipe you are buying cheaper so that is helping the farmer, A. And B, whenever that happens, politically as well as economically the government has to support the farmer, therefore the banks give out more loans and this year if you will see bank disbursement or the government disbursement to farmer is going in directly versus taking a lifetime and lot of leakages. So all of this is actually helping the farmer, so therefore what I see, that is why I think some part of it is reflected in the second quarter results volume being better, all of this is helping the farmer to still buy.
- Moderator:** Thank you very much. Our next question is from the line of Pravin Sahai from B&K Securities. Please go ahead.
- Pravin Sahai:** My question is on the CPVC side, do we have a tie-up on technical front with any international player for the CPVC?
- Prakash P. Chhabria:** One does not require any kind of a technical tie-up.
- Pravin Sahai:** And how is the trend of CPVC raw material prices?
- Prakash P. Chhabria:** That has been stable, but slightly going down but stable, I would now say it has not dropped as much as PVC has dropped.
- Pravin Sahai:** And on the CPVC side, CPVC pipe and fitting, how much is like as you said the overall piping have 70% from the agriculture and 30% from the plumbing, so this we can assume for PVC piping?

- Prakash P. Chhabria:** I am sorry, I did not get your question.
- Pravin Sahai:** Sir actually in the pipe and the fitting there is contribution of 70% on agri side and 30% from the plumbing, right?
- Prakash P. Chhabria:** That's right.
- Pravin Sahai:** So we can assume this is for the PVC pipes only?
- Prakash P. Chhabria:** Correct.
- Moderator:** Thank you very much. Our next question is from the line of Arun Vaid from Religare. Please go ahead.
- Arun Vaid:** Even I missed the opening remarks because I was on the queue, just wanted to understand what lead to this extraordinary volume growth in this quarter?
- Saurabh S. Dhanorkar:** I think yes we answered that, see there is two things, one of course somebody asked is the base effect that yes last year the base was lower because the whole of the quarter it was raining, this year the rain stopped earlier so people have started buying, so part of it is because of the lower base, but also a major chunk is because of actual demand pull coming up from various states like Gujarat, Telangana, even Andhra Pradesh, Maharashtra is a slow starter but Maharashtra started late. So now there is actual good demand pull based on irrigation happening all over India, so it is not a one-off phenomena, we see that there is a sustainable growth now coming up in pipes demand.
- Moderator:** Thank you very much. Our next we have a follow-up question from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just wanted an update on the Finolex PLASSON, if you have any update to share as to how has the performance been and what is happening with that company?
- Prakash P. Chhabria:** No, we were asked this question earlier also but we do not have this anything right now.
- Kashyap Pujara:** Okay. And anything on the property, any progress there going forward??
- Prakash P. Chhabria:** Fingers still crossed.
- Kashyap Pujara:** And new product introduction?
- Prakash P. Chhabria:** New product introduction like I had mentioned earlier, third party new products we are still talking to people, I think much has happened but we are introducing about 150 new products in the next two to three months.
- Kashyap Pujara:** All on the fittings side?

- Prakash P. Chhabria:** Yes, yes mostly fittings.
- Kashyap Pujara:** And no other segments being explored?
- Prakash P. Chhabria:** No, no third party which I said that is still being discussed with people, we do not have anything yet.
- Moderator:** Thank you very much. Our now have a follow-up question from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Hi sir, my questions have been answered, thank you.
- Moderator:** Thank you. We also have a follow-up question from the line of Saket Kapoor form Saket Kapoor Company. Please go ahead.
- Saket Kapoor:** Yes sir, just wanted to get an idea of your guidance which I have missed I think so for the second half and for the next year also, if you could paint the picture.
- Saurabh S. Dhanorkar:** No, overall as a policy frankly we do not give guidance but on the volumes in pipes and fittings we have said we are confident of achieving about 15% volumes side, on the margin generally as a principle we do not give guidance.
- Saket Kapoor:** Sir just getting on the point of CPVC, sir are we also augmenting any capacity addition in that particular segment also?
- Saurabh S. Dhanorkar:** Yes, we are adding capacity there also.
- Saket Kapoor:** What is the revenue for CPVC in particular for the first half or if you could give for the quarter whatever data.
- Saurabh S. Dhanorkar:** CPVC volume of course I already declared about 800 tons, value, frankly I do on have right now, we will have to get it.
- Saket Kapoor:** And sir any new capacity coming up in the country in the CPVC segment going forward?
- Saurabh S. Dhanorkar:** CPVC yes, there are many, players are coming up almost every month new players are coming up, so it is no more that we are very sacred land.
- Saket Kapoor:** That will add more competition to it, because I think this is the product mainly imported?
- Saurabh S. Dhanorkar:** Yes, earlier it was restricted by availability of raw material, today raw material is abundantly available so obviously more people will come into the field.
- Saket Kapoor:** Sir is DCW anyway competitor in the segment?

- Saurabh S. Dhanorkar:** The DCW will be manufacturing CPVC resin, today they are not yet player in that market, and they not into pipes, we are talking about CPVC pipes, DCW will be making CPVC resin like Lubrizol or Sekisui or Kaneka are the other players, so there will be many players now offering CPVC resin and that's why it is becoming like SPVC now.
- Saket Kapoor:** So we are doing CPVC resins basically and that is the conversion, I mean if you could explain.
- Saurabh S. Dhanorkar:** No, we make SPVC resin, we do not buy CPVC, CPVC is chlorinated PVC that we buy from international manufacturers.
- Saket Kapoor:** And is that readily available in the country?
- Saurabh S. Dhanorkar:** No, no DCW will be starting to manufacture now, otherwise it is being imported currently.
- Saket Kapoor:** So that is a unique product?
- Saurabh S. Dhanorkar:** Yes.
- Saket Kapoor:** And what are the price trends for CPVC resins which we purchase, that trend for the first half?
- Saurabh S. Dhanorkar:** See, PVC has been coming down slowly, it used to be around 2,000 now it is coming down slowly, but not a big difference because it is not like SPVC where you have almost weekly or fortnightly price changes.
- Saket Kapoor:** There is a longer contract there?
- Saurabh S. Dhanorkar:** Yes.
- Saket Kapoor:** And what is the band sir if you can give can idea sir currently for the first half, for six months what have been the price trend for CPVC resin?
- Saurabh S. Dhanorkar:** It is \$4,000 plus minus \$100.
- Saket Kapoor:** Very stable?
- Saurabh S. Dhanorkar:** Yes.
- Moderator:** Thank you very much. Sir we also have a follow-up question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Sir I was just going through your numbers, did we reclassify our foreign exchange loss in other incomes and interest expenses?

- Saurabh S. Dhanorkar:** Not this quarter, in fact we have done that last year itself as per the accounting standards that is whatever is cost of forward cover that is to be classified in finance cost, that is the only thing but there has been no major foreign exchange gain or loss in the either way in the last quarter.
- Maulik Patel:** So we need to take it on a recurring interest expense which include your forward cover cost also?
- Saurabh S. Dhanorkar:** Yes, correct.
- Moderator:** Thank you very much. As there are no further questions I would now like to hand the floor back to Mr. Milan Bavishi for closing comments. Please go ahead, sir.
- Milan Bavishi:** Yes, I thank you all the participants of the call as well as the management of Finolex Industry. Thank you so much and have a nice evening.
- Prakash P. Chhabria:** Thank you.
- Saurabh S. Dhanorkar:** Thank you.
- Moderator:** Ladies and Gentlemen, on behalf of S-Ancial Advisors this concludes the conference. Thank you disconnect your lines.

*For Further queries:*



**Finolex Industries Limited**  
D-1/10, M.I.D.C, Chinchwad,  
Pune – 411 019  
Contact No.: 020 2740 8200  
1-800-200-3466  
[www.finolexwater.com](http://www.finolexwater.com)



**S-Ancial Global Solutions Pvt. Ltd.**  
Contact No.: 022 6143 2300 | Extn. 368  
[fil@s-ancial.com](mailto:fil@s-ancial.com)