



“Finolex Industries Limited Q2 FY2017
Earnings Conference Call”

December 09, 2016



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*Finolex Industries Limited
December 09, 2016*

Moderator: Ladies and gentlemen good day and welcome to the Finolex Industries Limited Q2 FY2017 Earnings Conference Call hosted by S-Ancial Global Solutions Private Limited. 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 the Mr. Pradip Seth from S-Ancial Global Solutions. Thank you and over to you, Sir!

Pradip Seth: Thank you Stanford. Good morning everybody. We have with us on the call Mr. Prakash P. Chhabria – Executive Chairman, Mr. S.S Math – Managing Director and Mr. Anil Whabi – Director Finance. May I request Mr. Chhabria to take us through his initial remarks and financial highlights subsequent to which we will have a Q&A session? Over to you, Sir!

Prakash P. Chhabria: Thank you Pradip. Good morning, everyone. I welcome to Finolex Industries Q2 FY2017 Investor's Conference Call.

Q2 FY2017 sales including excise were Rs.523 Crores as against 513 Crores during Q2 FY2016. The volumes and revenues from the pipes and fittings segment were marginally lower as monsoon was good all over the country this year; however, better profitability performance was driven by PVC segment which improved due to higher spread in PVC prices.

EBITDA margins rose by 782 basis points to 19.5% due to lower raw material cost for PVC resin. Finance cost was down from Rs.16 Crores to Rs.3 Crores as we have repaid significant amount of loans. The net profit stood at 15 Crores a growth of 28%. While we appreciate the Prime Minister's ambitious demonetization drive in order curb black money corruption and promote cash digitization the demonetization has temporarily created a setback but we feel this will be a very big positive impact on us during the long-term. The government is accelerating formal banking channels for transactions in the rural economy and as all of you know we all already on advance payment basis through RTGS from all our dealers so this will help us in the long-term.

On top of this the GST rollout is expected to be very soon and we feel that this will again be a very big impetus to our company. As you are aware Mr. Dhanorkar has retired after very long association with Finolex and Mr. Math is now the Managing Director of the Company. Mr. Math has a vast industry experience of 40 years including 9 years at Finloex. He is with us on this call and so as Mr. Whabi who has been with us on call so I think for more than now two years. I now leave the floor open for questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take our first question from the line of Ritesh Shah from Investec. Please go ahead.

- Ritesh Shah:** Congratulations for a good set of numbers. Sir my first question is on the spreads. We saw margin expansion during the quarter and a large part of it was because of resin making operations. So how do we see the spreads of PVC, EDC, PVC, and VCM for October, November can we expect the trend to continue in next quarter as well?
- Prakash P. Chhabria:** These spreads keep varying a lot, but keeping in mind what is there in the foreseeable future yes, I think this spread will be maintainable for this quarter and next.
- Ritesh Shah:** Sir how much is the inventory that we usually maintain for EDC, VCM and Ethylene?
- Prakash P. Chhabria:** During monsoon time, we have a higher inventory, which is about for like three, three and a half months, but post monsoon we bring it down to about a month and a half.
- Ritesh Shah:** Sir secondly would you like to comment on how do we see the volume growth specifically factoring the impact of demonetization in Q3 and Q4. I understand you said that we do deal with the dealers on RTGS basis that is how our sales are structured, but Sir are we giving more, are we giving some credit, are we helping the value chain and somehow or other to ensure that there is no degrowth incrementally?
- Prakash P. Chhabria:** Up till 8th November the growth numbers were very good because of good monsoon and everything, but 8th November did cause a little bit of disruption in the whole market scenario, up till now there has been a slight pickup but nothing that we can be very happy about, we are still cautious and what I understand from the market that even December might not be the best month, even though keeping in mind the monsoon was so good actually this November, December would have been fantastic sales. So I am being slightly pessimistic but my optimism comes in that after this all over whether it takes another week, or two weeks, or three weeks after this all over companies like us which are very strictly disciplined on RTGS payment will benefit dramatically and like I mentioned in my opening remarks once this GST also comes into place there will be a double whammy for the company, because discipline and payment terms we are working on way for thin margin so this all has settle the amount.
- Ritesh Shah:** Sir does Finolex benefit from the fact that if farmers do get certain subsidies if they procure through the banking channel if the transition value is above a certain 1000 or a lakh rupees is that the case because when we did our channel checks we understand that at the dealer level the banks were directly linked with basically the end user and dealers who were transacting through the banks wherein the farmers could get some subsidy from the government. So, is there some sort of phenomena that we are seeing which will to some level insulate us from this downturn short-term impact?
- Prakash P. Chhabria:** Exactly, but you see, all of this for the short-term is going to be painful because till the farmers get into gear, till the cooperative banks have put into its mainstream but the green shoots are like

you are saying the banks and the farmers that is the end customer and the dealer are talking to each other and bringing in money directly to this RTGS account. So, what happen this way is that even the farmer is moving faster in the growth. He does not have to go collect money physically, go to the dealer or go to a bank deposit it, he gets his credit let us say from a sugar industry let us say you take a sugar company. The sugar company will now pay the farmer directly into his account. This way the farmer does not have to come and wait in queue. He does not have to come and wait in a line, that give me my money, this is my bill, and billing is now computerized at the sugar cane factories also. So, all these speeds up because the farmer is 1% you must understand cannot wait like us we can wait for the market to correct before we invest into stocks. He cannot wait. He has deadlines. He has to do all of this prior to the monsoon setting in. He has to be at certain stages before the monsoon sets in. He really does not have the time. So this helps him and this helps Finolex.

Ritesh Shah: Sir my second question is the margins in PVC pipes and fittings have declined on a year-on-year basis any particular reason for that?

Prakash P. Chhabria: These are all temporary setbacks sometimes monsoons are harder, sometimes monsoons are geographically more spread out, so to keep the momentum going sometimes the company does pass on extra discounts, maybe sometimes the freights have gone up. So, things have been happened they all dynamic numbers.

Ritesh Shah: Sir then where do we account for discounts in the P&L because when we look at the realization actually it is up on 9% even PVC prices have moved up so if one had to look at this discount number would it be possible for you to quantify that?

Prakash P. Chhabria: See in PVC if you see because the spreads have gone up the profit and the profitability is definitely higher. This thing comes in about monsoon and everything basically comes in during the pipes and fitting sales. So, to quantify that month-on-month or quarter-on-quarter it will be very difficult at the moment.

Ritesh Shah: But so, you would attribute this margin compression to higher discounts?

Prakash P. Chhabria: All temporary, nothing in our own and I am sorry I also forgot also the volumes were lower. So automatically that volume lower meant that the sales were less, sales that means discounts for more so all of that bundle up together is why the numbers on the pipes segment will be lower.

Ritesh Shah: Sir just last two questions one is on increasing competitive intensity we understand Astral is also getting into agri pipes and you have lights of CK Birla Group Companies, which are also getting into this segment. So, does it mean more of pricing pressure and hence again pressure on margins.



*Finolex Industries Limited
December 09, 2016*

Prakash P. Chhabria: There are actually more than 500 people who make pipes in India. So, we compete with 500 everyday, but most of these guys are unorganized. The names, which you are taking, are organized. So, actually for the company it is better if there are more organized players that are rather than unorganized. Now this unorganized also was slowly have to become organized once GST comes in so once GST comes in and the organized player does not have any unknown advantages then everybody is on a level playing field. So, at a level playing field then distribution, quality, availability all those things will come in place for which we are very well geared up.

Ritesh Shah: Sir sorry to just get into this bit more detail, because something like Astral they have cut prices significantly in the CPVC segment and likewise Ashirwad has also followed up. Do we see similar trends even in the PVC segment wherein it can actually lead to structural decline in margin for all companies in the organized sector?

Prakash P. Chhabria: CPVC is becoming more and more commoditized as I think they use to be this huge margins and all that years ago, but now as a number of players have gone up not only number of players have gone up in the manufacturers of pipes and fittings number of players have gone up in the manufacture of raw material also and not only internationally but even locally. So this whole change is going to happen and it is slowly happening like you are talking about reduction in margins it is happening to everybody.

Ritesh Shah: Sir last question is on any incremental product launches in the last quarter you did indicate that we were planning around 200 SKUs since March 2016 and the total count expected by March 2017 was 1750 sir any update on this particular number.

Prakash P. Chhabria: Yes, we have held about 50 more items and there are another 50 on the pipeline.

Ritesh Shah: So, Sir how much is the total count after this addition of 50.

Prakash P. Chhabria: No, in this financial year itself we would have added more than 125 items.

Ritesh Shah: So, the total count would be how much around 1600.

Prakash P. Chhabria: Total count should be around 1600 yes.

Ritesh Shah: Thank you so much and congratulations for good set of numbers.

Moderator: Thank you. We take our next question from the line of Maulik Patel from Equirus Securities. Please go ahead

- Maulik Patel:** Thanks for the opportunity Sir. Couple of questions Sir. Can you give me the fittings and volume which you generally give?
- Prakash P. Chhabria:** Fittings volume is at 4000 metric tonnes up by 11% in volume terms and in value it is 69 Crores up by 19%.
- Maulik Patel:** We have seen some growth in the fitting business?
- Prakash P. Chhabria:** Yes.
- Maulik Patel:** Because of demonetization is it correct that the agriculture part of the segment has impacted more compared to the plumbing or the construction part?
- Prakash P. Chhabria:** I think both are impacted. Question is which one will bounce back faster. I think agriculture at the moment seems to be the one which would bounce back faster because of what I said earlier is that they are much more streamlined than construction my feeling.
- Maulik Patel:** But in agriculture the customer generally buys the pipe in cash only?
- Prakash P. Chhabria:** There are many customers who also go on taking subsidy from the government and the government subsidies are not on cash they are on cheque and most of that accounts have now opened accounts with their cooperative banks so that for them also when they have to give money to the dealer and the dealer has to give to Finolex it has to go from bank-to-bank now.
- Maulik Patel:** But generally in any purchase of subsidy element itself would be smaller right less than 2%, 3% of the purchase price.
- Prakash P. Chhabria:** Maybe even 5%, 10% at times.
- Maulik Patel:** It can be. Sir on this the resin business, I think since last couple of quarters our spread has been expanded significantly because we see this PVC minus EDC spread has widened up further any update in terms of that capacities which talked about couple of years back that suppose to come in Saudi Arabia has those capacities finally come up on the EDC side?
- Prakash P. Chhabria:** On EDC.
- Maulik Patel:** Yes, and that is driving the EDC price lower or is this PVC prices driving higher what exactly the scenario right now?
- Prakash P. Chhabria:** EDC prices are lower also because of capacity expansions also because of demand supply also because of the China factor so all of those things are in place.

- Maulik Patel:** The China factor in terms of that is a China is consuming less of PVC.
- Prakash P. Chhabria:** Less of PVC less of imported EDC both came.
- Maulik Patel:** I think Chinese have that they have manufactured PVCs with some other technique also from other I think raw material also?
- Prakash P. Chhabria:** Calcium carbonate.
- Maulik Patel:** So, is that the spread is going to sustain in the near-term?
- Prakash P. Chhabria:** In this business, what I have learnt in my 20 years of working is that near-term and long-term is the same but looking and what we can see right now it look sustainable like I said earlier for this quarter and next quarter.
- Maulik Patel:** So for another one or two quarter it is sustainable?
- Prakash P. Chhabria:** Look sustainable.
- Maulik Patel:** Sir last question is again back to on pipe side we have seen that the PVC pipe price has gone up relatively faster in the last few months in India the PVC price is now around Rs.75 per kg which was almost Rs.68 per kg for a couple of months back. The price increase will lead to a lower demand from the farmer community has we seen that kind of correlation in the past?
- Prakash P. Chhabria:** If it is because of only price going up it is not necessary if the price goes up practically and monsoon has been very bad and agriculture produce is suffering and there is no demand let us say sugar price is down therefore sugarcane demand is low all of that put together will then affect the demand of PVC pipes. Otherwise even if the prices go up demand continues and if prices drop for example drastically it does not mean that the demand goes up tremendously it is not that also. So therefore, the demand because you see the farmer like I said earlier does not have that much luxury of waiting. He has to keep on investing back into his ground.
- Maulik Patel:** Sir One more last question if you allow me. Sir you talk about GST coming up right?
- Prakash P. Chhabria:** Yes.
- Maulik Patel:** But Sir how this transition will happen, let us say from the 1st of April you will have GST coming into the country and one generally would happen that historically for many of our industries in month of March the production is always higher and they push maximum inventories to the various distributor and dealers in the month of March. Now this time it will be reverse one or the same one because something you have produced under the VAT system in the month of March you are going to sell something on the GST system. So is the dealer and

distributors going to hold very much lower inventory in month of March compared to the earlier GST trend.

- Prakash P. Chhabria:** Mr. Whabi is excited. He wants to give the answer.
- Anil Whabi:** Two things our dealers do not hold large inventories, so for that matter this may not affect much and GST rate in our case see today also the total tax levy on our product is almost 18% to 19% and GST rate if it is around that it will not make lot of difference in the value chain.
- Maulik Patel:** Thank you.
- Moderator:** Thank you. We take our next question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.
- Kirti Jain:** Thank you for my question. Sir we had a plan to open large warehouses in across the country what is the status for the plan?
- Prakash P. Chhabria:** At the moment, we have three warehouses Cuttack, Indore and Delhi and we are looking for one more but we are actually going very slow on that.
- Kirti Jain:** Sir second question now since the demand is slightly slow will we be able to sell more resins in the external market?
- Prakash P. Chhabria:** How will we sell more resin because if I am not selling pipe that means the other people are also not selling pipes.
- Kirti Jain:** India is at two-thirds resin import country right Sir?
- Prakash P. Chhabria:** I know but the imports take anywhere between 30 and 45 days to come in so people who have already booked their product until will keep coming, you cannot tell a ship to go back. So, the effect of less imports will be felt in January.
- Kirti Jain:** Sir third thing how has been the pricing are the PVC pipe to resins spread strong?
- Prakash P. Chhabria:** For this quarter or last quarter? Last quarter it has narrowed down know because of less output, less sales so it narrowed down therefore there is less profitability.
- Kirti Jain:** Thank you.
- Moderator:** Thank you. We take our next question from the line of Khadija Mantri from Dalal & Broacha. Please go ahead.

- Khadija Mantri:** Sir my question is with regard to decline in volumes I would like to know which part of the country you saw a subdued demand or was it across the country in the last quarter.
- Prakash P. Chhabria:** In the second quarter, it was generally across the country but more so felt in Maharashtra and Karnataka.
- Khadija Mantri:** These are your major two markets?
- Prakash P. Chhabria:** That is right. There are two major markets for agriculture so because the rainfall was good which a very good sign is for us therefore the demand was less.
- Khadija Mantri:** Sir I also wanted to breakup between internal and external volumes for the PVC?
- Anil Whabi:** Out of the total PVC volume of about 39000 - 40000, 26000 was internal and 13000 tonnes was sold outside.
- Khadija Mantri:** Sir just wanted to confirm the volumes for fittings this quarter you said this was 4000.
- Prakash P. Chhabria:** Yes.
- Khadija Mantri:** So, there has been a growth of about 14% if I compare it with the last year numbers same quarter?
- Prakash P. Chhabria:** Yes, you are right.
- Khadija Mantri:** So, that number is correct. Also, Sir in capital employed unallocated capital employed has increased Q-o-Q from 485 Crores to 737 Crores so just wanted to understand what all items are under this?
- Prakash P. Chhabria:** This is basically because of the new accounting standards valuation of investments so that investment which we hold in Finolex Cable it has gone up in value and that is where you see higher capital employed that is how we have to report.
- Khadija Mantri:** That is all from my side.
- Moderator:** Thank you. We take our next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.
- Sagar Karkhanis:** Thank you for this opportunity Sir. Just wanted to know the breakup of our sales volume, so we did 40000 in this quarter and around 58000 in the last quarter so between agriculture and let us say housing how much could be the volume become?

- Prakash P. Chhabria:** Out of total 39000 that we did in pipes and fittings agriculture was about 65% because in monsoon season the volume for agri goes down more than non-agri.
- Sagar Karkhanis:** Sir if you could share the geography wise which state do we sell more?
- Prakash P. Chhabria:** For agriculture, I mentioned the biggest states are Karnataka and Maharashtra.
- Sagar Karkhanis:** Where is the opportunity Sir going forward to grow?
- Prakash P. Chhabria:** Grow opportunity in our country is in all the states. I am very bullish about all the states in our country, some will be faster, some will be slow but they all got huge potential. For example, Maharashtra is slowly coming out with the drip irrigation like Andhra had, between Andhra, Gujarat now Maharashtra, Rajasthan has started some water development programmes earlier on. Gujarat is now get started this SSFNL so even Punjab is doing so state here and there everybody is doing something because we all know India is still an agricultural economy. So, supporting the farmer, supporting agriculture is a huge focus for the government, whether it is state level or central level.
- Sagar Karkhanis:** Sir realistically in the immediate future which states you feel where we can add our market share or see more volumes coming?
- Prakash P. Chhabria:** Maharashtra, Gujarat, Tamil Nadu, Andhra, Madhya Pradesh, Punjab and Haryana.
- Sagar Karkhanis:** Thank you and all the best.
- Moderator:** Thank you. We take our next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir we did 39000 volumes that in pipe and fittings?
- Prakash P. Chhabria:** Yes.
- Dhaval Shah:** So, if we deduct the impact if post 8th November that what would have been our volumes?
- Prakash P. Chhabria:** No, this is for the second quarter before 8th November.
- Dhaval Shah:** Sorry, so what sort of volume drop have you seen in this post 8th November any in terms of is it 10%, 20% any sort of volumes.
- Prakash P. Chhabria:** Yes, something like that even more.
- Dhaval Shah:** Sir what is our fittings I joined the call late what is our fittings volume for this quarter.

- Prakash P. Chhabria:** We did fittings volume of 4000 tonnes.
- Dhaval Shah:** Sir just one accounting questions. The segmental sales what we report now so the revenue are gross revenues am I right.
- Prakash P. Chhabria:** Yes, as per the new regulations it is gross.
- Dhaval Shah:** Thank you.
- Moderator:** Thank you. We take our next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir I was a bit late in joining the call. If I could get the introductory remark and the effects of demonetization on the industry and specifically on us I missed the initial comments
- Prakash P. Chhabria:** See we have been talking about demonetization and yes we feel short-term is going to be painful, but long-term demonetization plus GST is something which will give a great boost to the company's demand in the market. Second quarter was pretty much low because of good monsoon everywhere and third quarter was doing pretty good in 8th of November. We are hoping that things will really improve in January.
- Saket Kapoor:** That means we have lost considerable amount of business post demonetization that is one month has passed so you are getting the correct scenario what has been getting paid out so we are make the considerable part for this one month?
- Prakash P. Chhabria:** It has gone down yes correct it has gone down.
- Saket Kapoor:** And it is very unlikely that is going to pickup even for this month because the game is going to end on 30th December it is only after that you are well enough.
- Prakash P. Chhabria:** This month is better than November so at least I am thinking it is a good month but whether it will make it fully good I do not think so. So, what we are looking at is a good sign so it is positive which is good for us.
- Saket Kapoor:** Sir it is mainly the agriculture segment that has drift because it is the major contributor for us?
- Prakash P. Chhabria:** Right now the offtake and the green shoots that I see are in the agri sector.
- Saket Kapoor:** And it is the one that has given the major dent for the previous month?
- Prakash P. Chhabria:** Yes, that is correct.



*Finolex Industries Limited
December 09, 2016*

- Saket Kapoor:** Sir for this quarter has there been any inventory gains also?
- Prakash P. Chhabria:** No in the second quarter there was no gain.
- Saket Kapoor:** No inventory gains.
- Prakash P. Chhabria:** No.
- Saket Kapoor:** Sir now coming to this as we see initial part of this CPVC part you have comment
- Prakash P. Chhabria:** You are introducing to Finolex at this age is good news.
- Saket Kapoor:** I am at home sir and the child is just trying to make some more point so we can.
- Prakash P. Chhabria:** Very good.
- Saket Kapoor:** So now Sir it is coming to the call again. For the CPVC part Sir I missed the comment Sir you were talking about that CPVC resins did produce indigenous in the country also. So, sir which company and other than Lubrizol is coming up with that the Lubrizol I think only they are doing the compounding part.
- Prakash P. Chhabria:** ECW has started know.
- Saket Kapoor:** So, have we started purchase when it is taking their products?
- Prakash P. Chhabria:** The trials are going on here and there.
- Saket Kapoor:** No have we approved their products because earlier you were telling that we would take the samples from them and whether it is move this also.
- Prakash P. Chhabria:** No trials are still going on it is not that easy to do it so far so as of now trials are still going on.
- Saket Kapoor:** We have viewed their product on trial basis also sir and have we got their product.
- Prakash P. Chhabria:** We tried everything we keep trying.
- Saket Kapoor:** Correct Sir. Coming to the point Sir what was the reason for lower volume for last quarter is it only primarily on this account excess of monsoon?
- Prakash P. Chhabria:** Yes, that is correct.

- Saket Kapoor:** That has posted lower volume. Now demonetization putting things generally sir the third and the fourth quarter you use to look better, traditionally for us so for third quarter I think though the story is over and now post demonetization happen in third quarter only you would be able to give and some more forward looking comment that will be better when we go through this pain.
- Prakash P. Chhabria:** Correct.
- Saket Kapoor:** Sir last point is; you have told earlier also that for stock split you would be considering it in due course. So, I just looked into it because it augments now the volume is comparatively dried up at Rs.10 Face value
- Prakash P. Chhabria:** It is quite tempting let us see let us talk about internally.
- Saket Kapoor:** Even the talk of the interim dividend also that now you being a cash net company zero debt burden even after six months we can come with the policy of interim dividend also this is the suggestion on my side.
- Prakash P. Chhabria:** Thank you.
- Moderator:** Thank you. We take our next question from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Thanks for the opportunity again. Sir if you could please detail on the capex plans and incremental capacity additions over next two years?
- Prakash P. Chhabria:** See we keep adding capacity and like you keep saying every year we will add capacity by around 30000 tonnes. So, we will keep doing that we will keep pushing it and 30 might become 28, 30 might become 32 so I am not getting into the nitty gritty it but that target is there and we will keep pushing it.
- Ritesh Shah:** Capex is around 40 Crores every year correct?
- Prakash P. Chhabria:** Anywhere between 30 and 40.
- Ritesh Shah:** Sir just on the prior question given we are net cash and we will have a lot of strong internal accruals so how are we looking at that from incremental capital allocation given we have fixed capex which is not very high so are we looking at stated dividend policy which the minority will appreciate to a great extent?
- Prakash P. Chhabria:** You know we are a very healthy and liberal company in giving dividend. We have been for so many years and that has also been without a written policy so if we can do that without written

policy I am sure we will do it with a good heart going future also because for us even major shareholders and minority shareholders all the same so we look after everybody's interest.

Ritesh Shah: Sir secondly on the prior question you did indicate that we are going slow on the incremental one warehouse but earlier we have guided for around six warehouses in 12 to 18 months so are we still very much on track for that?

Prakash P. Chhabria: Now we are on track for that but the reason we went little bit slow is because we are finding that with the master plants in play distances are becoming little bit shorter. I do not know how about the trucks are becoming more efficient. There is a new company which is come out and done I do not think there is an IPO but this is the private funding and they are talking about reducing time by 25%, 30% so with all of this happening, it is not necessary the company has to have warehouses everywhere. So, it is not that we have shut our minds, we have slowed it down and we will still keep looking at opportunities. There is no burning desire as there was a burning desire earlier now it is not there.

Ritesh Shah: That is helpful. Thank you so much.

Moderator: Thank you. We take our next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Sir just wanted to understand that if you see this kind of a cash crunch already playing out then though we are already in advance payment mechanism for now are we getting any special support to the dealer distributor to the network or the interim period to tide over in terms of the demand being impacted so are we seeing any sort of kind of a supporting to the dealers or the value chain in terms of that?

Prakash P. Chhabria: We are very proactive so depending on the situation; depending on the state we do give proactive support to all our dealers.

Kamlesh Kotak: So how has been the trend are the dealers looking at getting the inventories before the busy season comes in or they are still skeptical about of holding inventory and getting more of a volume uptake from the company how you see that?

Prakash P. Chhabria: Like I said December is much better than November when I say November post 8th November.

Kamlesh Kotak: But still it will be degrowth phase right?

Prakash P. Chhabria: Yes, I think so definitely.

- Kamlesh Kotak:** So, Sir in your best assessment do you see that the yearend what would be the kind of a trend we will be maintaining this kind of volume growth or we will be not able to show any volume growth for the year, your own assessment as it trends.
- Prakash P. Chhabria:** I am always optimist. So, I will always say that we will have.
- Kamlesh Kotak:** Sir when you say that you are adding 30000 metric tonnes of capacity that will be at the three existing locations or we have new locations also there.
- Prakash P. Chhabria:** Yes.
- Kamlesh Kotak:** Which plant we have got maximum amount of capacity coming in out of that three.
- Prakash P. Chhabria:** Ratnagiri.
- Kamlesh Kotak:** How much is our Gujarat capacity Sir?
- Prakash P. Chhabria:** Close to 55000.
- Kamlesh Kotak:** And Ratnagiri would be?
- Prakash P. Chhabria:** Close to 100.
- Kamlesh Kotak:** Pune would be?
- Prakash P. Chhabria:** 121.
- Kamlesh Kotak:** Thank you very much.
- Moderator:** Thank you. We take our next question from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Good morning Sir. Congratulations for good set of numbers. Can you quantify exactly what was degrowth in both the segments PVC and the pipe in the month of November, exact degrowth?
- Prakash P. Chhabria:** Exact degrowth I cannot give the numbers right now. Because I do not think I am allowed to share that is all. No other reason.
- Vipul Shah:** Any indication was it more than 20% or below 20%?
- Prakash P. Chhabria:** Yes, I would say it was more than 20%.

- Vipul Shah:** More than 20%.
- Prakash P. Chhabria:** Yes, for the first two weeks at least it was much more than 20%, because it was a shock to the whole system.
- Vipul Shah:** How should we look at it that loss sales, would it come back into a subsequent quarter or is it loss forever?
- Prakash P. Chhabria:** I think it is not completely loss for ever I am sure some of it is loss for ever very small part but most of it will come back and like I said earlier also December is already much better than November post 8th November, December is much better than that. So, I am seeing good growth in December and therefore keeping that in mind, I have a feeling that January, February, March will be fantastic and all of this again on the basis that the monsoon was brilliant.
- Vipul Shah:** You said December is much better should we assume that this December as compared to last December will be degrowth or will be a moderate growth.
- Prakash P. Chhabria:** I cannot give comments on that.
- Vipul Shah:** Sir how much debt we have repaid in this quarter?
- Prakash P. Chhabria:** There was no major debt to be repaid in this quarter. It will be repaid in the third quarter the due date is in third quarter.
- Vipul Shah:** What is the net debt as of?
- Prakash P. Chhabria:** 130 Crores as on 30th September.
- Vipul Shah:** Thank you Sir.
- Moderator:** Thank you. We take our next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.
- Rahul Singh:** My question was more from a two to three-year perspective when you talk about 30000 per year it works out to 12% to 15% volume growth for PVC pipes over three-year period. Now given the opportunity of taking market share from unorganized post GST and demonetization and also the market share gains which you might have in states where you are not so strong does not 12% to 15% kind of to us at least to people outside the industry sounds little on the lower side I just wanted to get a sense from you whether 12% to 15% is taking into account all these factors or any other constraints which you might have or if there is some kind of a long-term upside to these growth numbers?



*Finolex Industries Limited
December 09, 2016*

Prakash P. Chhabria: I think this year itself we would have seen higher than 15% if this demonetization things like that have not happened, but saying that post demonetization stability that growth will be much more and like I said earlier once GST also comes in so if we have to I do not know when exactly GST will come we talk about 1st April, but I really do not know when so keeping all of that in mind if we get a full year then you are absolutely correct even a 12% to 15% growth is very lower so to say but because we have to be cautious and because we are in a cyclical industry we always like being more conservative than flamboyant.

Rahul Singh: Just one follow up on that, given your balance sheet is now as strong as it can be any plans to get into adjacent products or become more aggressive on the housing side because you had been more dominant on the agriculture side any thoughts on that to accelerate the growth?

Prakash P. Chhabria: Yes, we are working very hard now and most of our focus is now going to be on the non-agri side and we are really adding SKUs, adding new markets adding new networks so we are working on many fronts over there to increase our risks.

Rahul Singh: Thanks.

Moderator: Thank you. We take our next question from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Thank you for taking my questions and congratulations on good numbers. Firstly, on as you had mentioned in the earlier question like a 25% to 30% some time reduction from I think in the logistic side or something you are can you elaborate more on that?

Prakash P. Chhabria: I am sorry 25% to 30% what.

Praveen Sahay: Reduction time reduction because of you are hampering to the warehouse?

Prakash P. Chhabria: Time reduction yes. So, there is there are new companies coming up where they have worked out some brilliant what they call algorithms where the transport and there we have done couple of tests and those tests have proven that they save at least 25% to 30% of time at hardly any extra cost. There is a premium to the cost but it is not when you set up a warehouse this warehouse is also a cost, a cost of whether you rent it or buy it and the cost of mining it cost of inventory. If I can reach my customer faster that is 25% to 30% faster by paying little bit of extra freight and we just see the math whether that is cheaper to extra money on the freight or it is cheaper to have a whole warehouse. So, we are at the moment doing all those combinations and permutations just to see and we are finding that many places it is working out that a faster delivery at a premium is much cheaper on the overall scheme than to have too many warehouses.

- Praveen Sahay:** So basically, you will explore this particular launched company in place also the warehouses are throughout any countries is it like that they are throughout in country you are planning Sir?
- Prakash P. Chhabria:** They are throughout in country but I do not see a warehouse like Cuttack going away because it is very far away from Pune to certain extent it will not go away it will stay new warehouses we are taking a small breather just to study to see whether we need to invest in a new warehouse or based on these new logistic companies we can continue as it is.
- Praveen Sahay:** Obviously with the GST that will further benefit to us?
- Prakash P. Chhabria:** Yes, that will further make changes.
- Praveen Sahay:** Next this is on more on the cash and carry mode as we are continuously telling so is that our impact with this demonetization is higher as compared to others who are not on the cash and carry mode?
- Prakash P. Chhabria:** I do not know this is cash and carry and credit there is a whole slowdown in the system I think it will be going to affect everybody revenue that is what my feeling is.
- Praveen Sahay:** Thirdly on the CPVC side how much of percentage for this quarter we have?
- Prakash P. Chhabria:** No I did not understand the question.
- Praveen Sahay:** So, this time out of total volume how much is the CPVC for us?
- Prakash P. Chhabria:** Total volume of CPVC.
- Praveen Sahay:** Yes.
- Prakash P. Chhabria:** Yes, so the CPVC volume was about 10%.
- Praveen Sahay:** Thank you Sir.
- Moderator:** Thank you. We will take our next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Are you talking about that Rivigo new company which has got the funding for the logistics purpose?
- Prakash P. Chhabria:** Maybe you are correct.

- Dhaval Shah:** Second thing so we did 4000 tonnes in fittings volume which is same as our fourth quarter number in the fitting side and we have lost on the margin side so does it mean that you provided higher amount of discounts on the fittings in the second quarter?
- Prakash P. Chhabria:** The second quarter is generally also down because of the monsoon part.
- Dhaval Shah:** Correct but our volume seems to be similar because Q4 is good for us.
- Prakash P. Chhabria:** Q4 volume the quarter four and quarter two are totally noncomparable so in a Q2 if the volume is as good as Q4 it is a good thing and you are looking at margins but margins of our pipes and fittings and that two on a lower volume of pipes and fittings all together.
- Dhaval Shah:** But you mentioned that the discounts were offer higher on the fitting side.
- Prakash P. Chhabria:** Pipe.
- Dhaval Shah:** On the pipe side this is higher. You already started using the service of the new logistic guy?
- Prakash P. Chhabria:** We are still working on the pricing; we are still talking about destinations so there are many things, which are happening because it looks very easy, but it is not that easy.
- Ritesh Shah:** So, if you can briefly elaborate like what made you think about this and not the warehouse...?
- Prakash P. Chhabria:** Numbers, it just adds up to numbers, you setup a warehouse like I mentioned earlier it is a cost. And if somebody is going to take your product 25% faster and save your time by 25% he is also going to charge you a premium, it is just a trade off, so therefore we are just trying to see which one is a better long term solution.
- Ritesh Shah:** Thank you.
- Moderator:** Thank you. We will take our next question from the line of Akshit Gandhi from Aviva Life Insurance. Please go ahead.
- Akshit Gandhi:** Sir, just one question if I look over a long-term that is let us say over 8 to 10 years your realizations in PVC pipes have increased every year along with volume growth and this is despite facing a lot of competition. I assume because of gaining market share from the unorganized, so in the CPVC side why do we expect that it will be a more commodity market, cannot the same dynamics play out because your profitability has also improved very well over last 8 to 10 years?
- Prakash P. Chhabria:** I did not understand the question.



*Finolex Industries Limited
December 09, 2016*

- Akshit Gandhi:** What I mean to say over the last two concalls if we see we expect the CPVC market to become a more commoditised market?
- Prakash P. Chhabria:** As compared to what was earlier.
- Akshit Gandhi:** Okay, all right so we say that probably the margins could reduce because of this competition coming in.
- Prakash P. Chhabria:** Correct.
- Akshit Gandhi:** Thanks.
- Moderator:** Thank you. We will take our next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.
- Sagar Karkhanis:** Thanks again for this opportunity. Sir I wanted to understand on the housing pipes since we have an established brand and yet you know other players have come and captured market share, so how do we plan to do gain back our market share and what are the specific steps that we will be taking?
- Prakash P. Chhabria:** Yes we were late starters in this non-agri sector and like I mentioned earlier we have been more focused on this product, this range by adding more SKUs, by adding more dealers by setting up new channels only for these products, our warehouse is which we took up steps in the last two years have been basically again to meet these kind of requirements because the SKU's in those products are higher, so keeping all of that in mind these are the aggressive steps we have taken to increase the presence in the non-agri sector.
- Sagar Karkhanis:** Sir aggressive you mean to say by offering more margins to the dealers?
- Prakash P. Chhabria:** By making more variety of products and by making it more available to our dealers by way of warehouses.
- Sagar Karkhanis:** I just have one question if we give a higher margin to dealers is it possible to gain market share by just doing that?
- Prakash P. Chhabria:** By giving higher margin to the dealers, but we do not control the dealers margin.
- Sagar Karkhanis:** When we sell to them then the margins that we give them.
- Prakash P. Chhabria:** We do not give them margins we sell them products.
- Sagar Karkhanis:** If you are selling them at a lower price, so they can resell it at a higher margin?

- Prakash P. Chhabria:** I think it all depends on the market dynamics.
- Sagar Karkhanis:** It is not that simple.
- Prakash P. Chhabria:** Yes, it is not that simple, market dynamics plus the season plus the product plus the location.
- Sagar Karkhanis:** Thanks. That is it from my side.
- Moderator:** Thank you. We will take our next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Sir what number you gave for the CPVC volume?
- Anil Whabi:** 847 tonnes for CPVC pipes.
- Maulik Patel:** What was that in the corresponding quarter?
- Anil Whabi:** That was 778.
- Maulik Patel:** Thank you.
- Moderator:** Thank you. We take our next question from the line of Devang Mehta from Tamohara Investment Managers. Please go ahead.
- Devang Mehta:** Just one observation in terms of whereas we reading a lot on newspapers about farm, crop prices going down drastically, fruits, vegetables some crops and also some channel checks in the mundies, some of the crop prices are down 30%, 40%, 50%, so on side dive I was just wondering if the problem of demonetization can last longer than what we envisage in terms may be a year or so because farmers are left with less in their hand to spend on other stuff like this?
- Prakash P. Chhabria:** When we talk about crop prices please understand between the farmers netback and the shelf price there are lot of layers of traders, brokers, transporters and everything, so it is not necessary that the netback prices of the farmer has gone down point number one. Point number two if you take a example let us say for sugarcane this year the money with the sugarcane crushers are going to give the sugarcane farmers much more than last year. This is regardless of demonetization. So, again it is not a very easier and a simple thing, product to product, state to state things are dynamic and there are a lot of positive one's also and on top of that the sugarcane farmer is going to get money directly like I said earlier into his account from the sugarcane crusher. So, the question of this demonetization all that yes it has slowed it down, it has shaken up the system, but it is going to hold them back.
- Devang Mehta:** Thank you.



*Finolex Industries Limited
December 09, 2016*

- Moderator:** Thank you. We will take our next question from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Sir, what was your exit market share in second quarter for pipes and fittings?
- Prakash P. Chhabria:** Exit market share?
- Vipul Shah:** Yes.
- Prakash P. Chhabria:** In percentage?
- Vipul Shah:** Yes, in percentage Sir.
- Prakash P. Chhabria:** I do not know may be 12%, 14%, I do not know.
- Vipul Shah:** For pipes and fittings both are or it should be different for both?
- Prakash P. Chhabria:** Frankly speaking I do not know because with 500 people it is too dynamic and there is no reporting like automobile people have a reporting, in this there is no reporting so to give you a number is really going to be a little bit hitting in the dark.
- Vipul Shah:** Thank you Sir.
- Moderator:** Thank you. We will take our next question from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Last question from my side. In the prior question you indicated that we are focusing on the non-agri side, would it be possible for you to provide some details and specifically if you can quantify it in SKU terms also it would be great?
- Prakash P. Chhabria:** Like I mentioned earlier we were late in the non-agri start and therefore we started by doing various things, many of those things are warehouses, adding SKU's, branding, so there are various fronts that we are looking at, that we could be doing day in day out to get into that space.
- Ritesh Shah:** So, it is not on the product launches?
- Prakash P. Chhabria:** Also adding, adding SKU's product launches.
- Ritesh Shah:** But Sir any specific products say something like incremental column pipes or foam pipes and if anything on that particular side?

- Prakash P. Chhabria:** Column pipes are already manufactured, so what we are telling is adding new SKUs means new sizes basically or new variety of fitting.
- Ritesh Shah:** Sir any update, has Lubrizol approached you or what is it based on your understanding that how the market will play out on the CPVC side?
- Prakash P. Chhabria:** I think CPVC what has happened you see there are many new manufacturers like I mentioned earlier, CPVC is pipes and fittings, this is one part, but there is another part called the resin and the compound manufacturers. Both have now suddenly come up, if you see compared to last two, three years or even if you go five years ago, there were very few players in the market from the raw material side and also the finished product side, now it is all dynamic change, there are may be 50 or 75 CPVC resin pipe and fitting manufacturers in the country. There are many more resin and compound suppliers in the country. So, the whole thing has changed.
- Ritesh Shah:** Correct, but Sir do you see I am just asking out of curiosity, do you see a possibility of Lubrizol paucity tying up with the company, which is not predominantly into pipes something into pumps and it fits its value chain, do you see something of this as a possibility, I am just trying to gauge the increase in competitive intensity if something of this plays out?
- Prakash P. Chhabria:** But with 50 to 75 competitors already in the market, another 10, 20, 30 will not make a big difference and anyway we are used to competing with 500 people everyday. As you know we do not supply to any government tenders or anything, we are only into retail, so we are used to this.
- Ritesh Shah:** That helps. Thank you so much.
- Moderator:** Thank you. We will take a next question from the line of Basudev Banerjee from Antique Finance. Please go ahead.
- Basudev Banerjee:** Thanks Sir for taking my question. Couple of just one since September PVC prices have shot up almost double-digit figure?
- Prakash P. Chhabria:** Basudev sorry, your voice is much muffled.
- Basudev Banerjee:** Since September end PVC prices are shot up by almost 10-odd percentage or more?
- Prakash P. Chhabria:** PVC prices have shot up.
- Basudev Banerjee:** In terms of passing it on to the agri market to another B2C market in this kind of demand scenario impacted by demonetization, so how do you see the top cities, which used to be with effective two, three years back some gross margin impact in the coming quarters?
- Prakash P. Chhabria:** Your question is that will the third quarter be impacted because of demonetization?

- Basudev Banerjee:** Because of surge in PVC prices and corresponding demand being subdued, will it be easy for you to pass it on fully or we will be absorbing some?
- Prakash P. Chhabria:** So, the PVC price increases have been passed on.
- Basudev Banerjee:** It is fully passed on even to B2C segment that you are on the agri side of the segment.
- Prakash P. Chhabria:** But the demand itself has been shaken up because of demonetization.
- Basudev Banerjee:** Whatever margin impact is because of scale, but not because of PVC price increase or not getting passed on, so nothing on that?
- Prakash P. Chhabria:** Sorry I do not understand.
- Basudev Banerjee:** Actually, passed on agri for PVC increases fully passed?
- Prakash P. Chhabria:** Correct.
- Basudev Banerjee:** How has been the spread in CPVC spread in last couple of months?
- Prakash P. Chhabria:** Spreads have been good like as I mentioned earlier, spreads have been good and going forward also for the short term at least what we get foresee otherwise you know it is a cyclical business, so we cannot foresee too much into the future, but looks good so barring unforeseen circumstances seems to be good.
- Basudev Banerjee:** One question it is like on the major CPVC makers are cutting their prices significantly either through because of change in sourcing up compound, at the end retail level the price gap between CPVC and PVC is that shrinking significantly?
- Prakash P. Chhabria:** I do not think it can shrink. It has shrunk I mean CPVC resin prices have come down over the last two, three years, yes, but whether they will shrink and come to PVC prices I have a doubt.
- Basudev Banerjee:** So, you do not see any demand substitutions you are getting a better product at a similar price, so nothing like that?
- Prakash P. Chhabria:** You cannot use CPVC for agri production at all it does not make sense.
- Basudev Banerjee:** In the housing segment?
- Prakash P. Chhabria:** In the housing segment, if you are doing let us say it is not just the water going into the building, so we are talking about sewerage pipes also, sewerage pipes nobody will make out of CPVC.

- Basudev Banerjee:** In the rural market, we have seen for normal bath taking pipes we are still using PVC, in some market people are not shifting because of higher prices of this, extra markets can come up.
- Prakash P. Chhabria:** Yes.
- Basudev Banerjee:** Thanks.
- Moderator:** Thank you. We will take our next question from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.
- Jinal Fofalia:** Good morning Sir. Could you just tell me your current mix between agri and non-agri?
- Prakash P. Chhabria:** 65:35.
- Jinal Fofalia:** Agri 65 and non-agri 35 right?
- Prakash P. Chhabria:** Yes.
- Jinal Fofalia:** Sir what was this last year?
- Prakash P. Chhabria:** I would say about 70:30.
- Jinal Fofalia:** Thank you.
- Moderator:** Thank you. We will take our next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Thank you again Sir. What has been the price trend for PVC and CPVC if you compare from September quarter to now, how have the price played up or price behaved for this quarter?
- Prakash P. Chhabria:** Prices have gone up slightly.
- Saket Kapoor:** In percentage terms Sir, if you could give an idea, what prices prevailed in September and quarter end, how have they behaved for these two months?
- Prakash P. Chhabria:** These two months, no, I am talking about last year second quarter versus this year second quarter.
- Saket Kapoor:** I was asking about the month of October and November?
- Prakash P. Chhabria:** October, November, December, I do not think I can disclose.

- Saket Kapoor:** Only that the trajectory I was asking, how is the market?
- Prakash P. Chhabria:** The trend yes, the prices are firming up.
- Saket Kapoor:** The prices have even firming up for this quarter also Sir?
- Prakash P. Chhabria:** Yes.
- Saket Kapoor:** You told about 840 tonnes we did for CPVC, pipes and fitting.
- Prakash P. Chhabria:** Pipes.
- Saket Kapoor:** And in value terms how much it is Sir?
- Prakash P. Chhabria:** Rs.16 Crores.
- Saket Kapoor:** 16.
- Prakash P. Chhabria:** 16.
- Saket Kapoor:** At this time, we declared our numbers, it is too late due to I think the Ind-AS part, is this the continuity even for the third quarter or we will be declaring the numbers in the schedule which we used to do earlier?
- Prakash P. Chhabria:** It is going to be in early February.
- Saket Kapoor:** First week of February.
- Prakash P. Chhabria:** First, second week of February.
- Saket Kapoor:** Thank you.
- Moderator:** Thank you. We will take our next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Just missed out one question. Have you taken any production cut in December or planning to take anyone?
- Prakash P. Chhabria:** Yes, there have been production cuts.
- Dhaval Shah:** Okay, so that will extend next month also because you must have some inventory also?



*Finolex Industries Limited
December 09, 2016*

- Prakash P. Chhabria:** I hope not.
- Dhaval Shah:** What extent you have taken that you will not mention right?
- Prakash P. Chhabria:** I cannot.
- Dhaval Shah:** Thank you.
- Prakash P. Chhabria:** Unfortunately,
- Dhaval Shah:** No problem, thank you.
- Moderator:** Thank you. We will take our next question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.
- Kirti Jain:** Earlier we used to have lead based stabilizers in our pipes, so now are we substituting with more non-lead based stabilizer Sir?
- Prakash P. Chhabria:** Tin-based.
- Kirti Jain:** So are they safe actually.
- Prakash P. Chhabria:** Both are safe; many countries still use only lead.
- Kirti Jain:** Because I heard there is one, called Organotin stabilizers have come into the market.
- Prakash P. Chhabria:** It is like people like you know eating only what you call healthy food and nutrition, protein food and all that and it does not make any problem.
- Kirti Jain:** Thanks.
- Moderator:** Thank you. We will take our next question from the line of Khadija Mantri from Dalal & Broacha. Please go ahead.
- Khadija Mantri:** Sir just a small clarification. You said that you would be concentrating more on non-agri business and since you are late entrant, does it mean that you may have to resort to giving more discounts to penetrating into that market and that could also be the reason the margins in pipe segments are declining?
- Prakash P. Chhabria:** Not necessary Madam, because non-agri like as I said late entrant volume wise is small, so it is not really going to make, but second quarter if you see year-on-year has always been low.



*Finolex Industries Limited
December 09, 2016*

- Khadija Mantri:** Going forward also it is not going to be...
- Prakash P. Chhabria:** Going forward year-on-year, every year, second quarter is going to be low that much I can say boldly.
- Khadija Mantri:** My question was going forward also your strategy for agri and non-agri is going to remain the same?
- Prakash P. Chhabria:** Yes.
- Khadija Mantri:** Thank you. That is it.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Pradip Seth from S-Ancial Global Solutions for closing comments.
- Prakash P. Chhabria:** First of all, just let me thank everybody for being on the conference call, to you Pradip.
- Pradip Seth:** Thank you very much for taking out the time. Thanks a lot the management as well as the participants. Take care.
- Moderator:** Thank you very much. On behalf of S-Ancial Global Solutions that concludes this conference. Thank you for joining us. You may now disconnect your lines.