



**Finolex Industries Limited Q4 FY15 Earnings
Conference Call
May 29, 2015**



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

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



*Finolex Industries Limited
May 29, 2015*

Moderator: Ladies and gentlemen good day and welcome to the Finolex Industries Limited Q4 FY15 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 Mr. Milan Bavishi. Thank you and over to you sir.

Milan Bavishi: Good afternoon, welcome to Finolex Industries Q4 FY15 result 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: Thank you. Good afternoon everyone and welcome to Finolex Industries Limited Earnings conference call. Q4 FY15, the revenues were Rs 785 crores, 6-7.5% lower compared to Q4 FY14. EBITDA before exceptional items was Rs 68 crores, 33% lower on year-on-year basis. The PAT was Rs 28 crores down 51% year-on-year basis. The profit during Q4 FY15 was lower as the margins were impacted due to spillover of high cost inventory from Q3 FY15 and lower PVC-EDC spread during the quarter as compared to Q4 FY15. Unseasonal rains and hail storms in various parts of the country also dampened the demand to some extent. We have seen demand from pipes and fittings picking up from March 2015 onwards and also the price of PVC resin and of PVC pipes and fittings firming up. So the full-year FY15 the net sales were Rs 2476 crores flat as compared to last year. EBITDA before exceptional items was Rs 213 crores, 46% lower year-on-year basis. The PAT was Rs 48 crores down by 72%. The performance in FY15 was mainly affected by negative impact of crude prices seeing a sharp drop from \$92 to \$52 per barrel during Q3 FY15. Additionally there were challenges from delay in resumption of operations of the captive power plant. Having said that we continue to be optimistic on long-term growth prospects in terms of demand for PVC pipes and fittings on back of supportive government initiatives, rise in irrigation and preference for branded items. We are on track in terms of expanding the scale of operations not only by increasing production capacity but also by having set up additional warehouses. We will continue to reduce debt on books as per our plans. I now leave the floor open for questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

Nehal Shah: Sir can you give us some sense on the EBIT margins on both the individual business segments because there has been a sharp cut particularly in the PVC resin segment while we have seen some cut as well in the pipe and fitting segment so can you just elaborate on that?

Prakash P Chhabria: The sharp cut in PVC is basically because of the raw material whereas pipe is basically hand to mouth inventory of PVC so therefore they never really go through an inventory, if I say a negative carry or a positive carry, it was both ways. Whereas the PVC business like we saw the sharp drop so we are likely to carry a negative everywhere but similarly there are many times in the cycle where things go up and the whole benefit goes to the PVC business.

Nehal Shah: And sir what are the current spreads which are going on and since now we would be having the low cost inventories in the system, are we expected to see very sharp jump in the margins in PVC?

Prakash P Chhabria: Yes the delta has already moved up to \$600, it has gone as low as close to \$400 odd, \$450 something, so the spread is improving and therefore this quarter, it is going to be like a fresh start.

Nehal Shah: So with \$600 per ton what kind of margins can we expect that to come back to?

Prakash P Chhabria: We should be able to come back to double digits if this continues but again because it's cyclical I never give forward-looking statements as it is cyclic and moves too fast.

Nehal Shah: And also on the column pipes and CPVC pipes if you can just throw some light on the growth numbers in each of the segment.

Prakash P Chhabria: In CPVC our business is more than doubled, column pipes it has gone up very high but again there was a very small base so percentage wise or multiplication wise in the segment gone up.

Nehal Shah: Sir can we have the size in terms of revenues in FY15 in both the cases?

Saurabh S Dhanorkar: For Q4FY15 the column pipe sales is about little over Rs 5 crores and about 500 tons of volume, CPVC pipe and fittings put together for Q4 FY15 is about Rs 17 crores.

Nehal Shah: And tonnage?

Saurabh S Dhanorkar: Tonnage about 700 tons.

Nehal Shah: And sir for the full-year?

Saurabh S Dhanorkar: For the full-year CPVC pipes and fittings is about Rs 55 crores.

Nehal Shah: And tonnage?

Saurabh S Dhanorkar: And tonnage is about 2400.

Nehal Shah: And column?

Saurabh S Dhanorkar: Column is about Rs 14 crores and 1200 tons.

Nehal Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Maulik Patelatel from Equirus Securities. Please go ahead.

Maulik Patelatel: Can you please throw some light on the unseasonal monsoon, on the demand of the pipe and we have a El-Niño this year what would be the impact on demand going forward?

Prakash P Chhabria: I have always maintained and I don't change my stand on that, monsoon has to come and go which is very fine. Whether there is El-Niño or normal it doesn't matter. As long as monsoon starts and ends within 3, 3.5-4 or even 4.5 months that's how it should be, but last year what happened monsoon went on stretching and stretching, it even stretched up to January-February of 2015. I don't know if you remember there was hailstorm in Nasik and in many places across the country we had heavy rains. So things like that then disturb the whole agricultural market and that's where when we don't get volumes and pricing and everything. Like now for the last few weeks since end of March 2015 we are sitting on hand to mouth for supplies of pipes. So there is no perfect formula for that and we are not worried about El-Niño, that doesn't matter

to us. Except that it should get over on time or it should start whenever it wants but get over in 3-3.5 months max which is good.

Maulik Patel: In terms of our strategy earlier that we want to have a more value-added products, the way we have like one is the column pipe and more on the fittings side have we really seen this traction in this year compared to the previous year?

Prakash P Chhabria: Yes definitely, we are seeing it every day. Our fitting **this year** has gone up substantially.

Maulik Patel: So what could be the size in terms of revenues on the fitting business?

Saurabh S Dhanorkar: Fittings total revenue is about Rs 180 crores.

Maulik Patel: This against what number previous year?

Saurabh S Dhanorkar: Previous year was about Rs 170 cores so not a very high growth.

Prakash P Chhabria: No not a very high growth but you're talking about crores but price of PVC has gone down so you should look at tonnage.

Maulik Patel: But these are in realization term right?

Prakash P Chhabria: Yes, what is happening is now that we have started opening these depots so recently we started Indore and Noida, now Noida is going to service basically the Delhi area, the greater Noida area, what do they call that NCR Region and it will also help our northern markets. Indore will be for central and we already have Bhubaneswar which is now doing pretty good. We really had a lot of teething problems because we were really not geared up for depots but now Bhubaneswar has caught on, Indore and Noida are picking up speed with less pain and less headache which we had for Bhubaneswar. So over a period of time we are going to add another 3 to 4 more warehouses so as these warehouses come up they then start doing what we talk about an exponential growth in fittings. Because you will appreciate we have got close to 1000 SKUs in fittings so to supply that 1000 from Pune became very difficult and therefore we had to do these depots.

Maulik Patel: And the last conference call you did mention about of launch of some new products to cater the Agri segment particularly water side of the business.

Prakash P Chhabria: Yes so I have been going around, I even went to Israel for the Agri-Tech show, I was there for 3-5 days and I met quite a few people, quite a few technologies, but it's not that easy because these are all new techs for higher value products and we are still looking for mass items. So as a fall back what we did is we started talking to those people to see what they can do for adapting to the Indian market. I will tell you for example when Mercedes Benz came to India, it was fully manufactured in Germany and came in and just sold. Now there is about 70-80% localization and that's how the prices come down and it's acceptable to the market. So that is what we are starting off with them is to see how we can already start up with 70% to 80% localized product rather than importing and putting and sending it across because then you will not get volumes.

Maulik Patel: I think but this will be in very long term as we launch the products in the market and then the market accept the product so it is still going to be in a few quarters at least.

Prakash P Chhabria: Yes definitely because I have to be very careful about what product I sell especially when it is not my product.

Maulik Patel: In terms of our earlier discussion on the EDC capacity it is coming up in the market, are we really seeing any significant additional EDC market or if you can highlight the trend on the EDC prices?

Prakash P Chhabria: EDC has definitely came down and then EDC started inching up a little bit but that was not because of EDC but that's because of Ethylene and Ethylene started shooting up because of plant closures so if you will see EDC has got three components Chlorine, Caustic and Ethylene. So even though chlorine prices come down or chlorine molecules come down which we can see when we transport chlorine we can although transport in the form of EDC which is adding Ethylene to it and that Ethylene molecule then takes the price up and Ethylene has gone up to as high as \$1450 a ton from \$1000 a ton so that's a good 50% increase in like 2-3 months. So EDC supplier even though where he is coming from he is not passing on the full cost benefit to us, actually the prices are subdued and that is visible over there and the prices are subdued basically again because of supply, oversupply versus less requirement.

Maulik Patel: Because our jetty is closed so are we fully secure for the 3-4 months of inventory?

Prakash P Chhabria: We are secure till the first week of September.

- Maulik Patel:** And then could be at what \$350 price?
- Prakash P Chhabria:** No that is too high we are much lower than that, less than \$300.
- Maulik Patel:** So when those capacities are supposed to come on the EDC, middle-east and other part of the world?
- Prakash P Chhabria:** Slowly they are coming up, but again what happened these plants are complicated so even if they come up they will come up they will run for a week, they will shut down for 20-30 days then they will come up and then they will produce only 50% but you can see the effect of that like I said my EDC cost is less than 300 in my tanks, correct. At the moment EDC has shot up but the shooting up is not because of chlorine, the shooting up is because of ethylene.
- Maulik Patel:** If you can highlight our foreign hedging policy, how much we have hedged at the end of the year?
- Prakash P Chhabria:** As on 31st March 2015 we were very little because this time we took a conscious effort that we don't see any real things happening which would make it worthwhile covering because forward cover cost 8%, forward cover is not cheap it is 8% so therefore we have left it open purposely.
- Maulik Patel:** So we must be below 30-40%?
- Prakash P Chhabria:** Yes below 20%.
- Maulik Patel:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Invest Capital. Please go ahead.
- Ritesh Shah:** If you could please provide some color on the kind of volume growth that one should expect next year and how incremental warehouses will help us on this front.
- Prakash P Chhabria:** We have always been aiming to do more than 10% volume growth, between 10 to 15 and again this year because of what we see of the monsoon in everything it seems it should be possible. But nobody could have foreseen the monsoon extension to I think we should be back on good track.

Ritesh Shah: How much was PVC - EDC spread for the quarter, you said currently it's at around \$600 how much was average for the previous quarter and Q4?

Prakash P Chhabria: For the 4th Quarter.

Ritesh Shah: Yes.

Prakash P Chhabria: So it was close to \$500 odd and reason being that we had this inventor carry in our tanks from last quarter which I mentioned earlier and then by the time the fresh material came in so we didn't really enjoy the full benefit of that in the 4th Quarter. But we will get good benefit of it in this current quarter.

Ritesh Shah: Would it be possible to quantify inventory loss for this particular quarter?

Prakash P Chhabria: I can send it to you but we don't have it right now off hand.

Ritesh Shah: Any specific government schemes which you think will help us aid volume growth next year, any specific schemes that you are looking at or where we could turn out to be a beneficiary?

Prakash P Chhabria: What we are seeing right now and let me give you an example of drip irrigation. So the drip irrigation companies which were earlier focusing only on Andhra and Gujarat are now focusing very heavily on Andhra, Telangana, and even maybe Maharashtra and Tamil Nadu. So now there is again all government thinking that we want to do this so this directly helps the agriculture business of our company, so that is one example. Second example is we would look at something like what we talk about smart cities, now Smart city is a very far fetch thing I know, it's not going to happen overnight and all that. But advantage of that is, a Smart city will not happen overnight and it will not happen geographically only in one area, it is going to be spread across the country. So for a company which is spread across the country and has got a footprint all over obviously part of that business is going to come to us and will come to us over a period of time which is always good, like we saw the crude sharp drop in the month of November-December 2014 that is painful. But if crude or rupee or any movement happens gradually it's always beneficial.

Ritesh Shah: On the Capex side how much should we estimate for next year?

Prakash P Chhabria: We have always maintained that we will not do any Greenfield; it's always expansion within the plans. We keep a range of between Rs 25 to 30 crores.

- Ritesh Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Walfort Financial. Please go ahead.
- Kalpesh Gothi:** Can you share in terms of volume and amount PVC resin sold to outside?
- Saurabh S Dhanorkar:** PVC resin quantity wise sold outside worth about 121,000 tons and captive was almost the same, this time it is almost 50-50 and obviously value wise because the prices at the same as the market price almost the same so its roughly 50-50 this year.
- Kalpesh Gothi:** And sir for the full year?
- Saurabh S Dhanorkar:** I'm talking about the full-year only.
- Prakash P Chhabria:** I think for the full year and half of it was sold outside, half of it was consumed internal and the rest was purchased by the company from other suppliers.
- Kalpesh Gothi:** For the quarter?
- Saurabh S Dhanorkar:** For the quarter about 50,000 tons sold outside and 48,000 tons captive so again 50-50.
- Kalpesh Gothi:** And sir what is the amount?
- Saurabh S Dhanorkar:** Amount for the quarter external sales is about Rs 305 crores and captive is about Rs 275 crores.
- Kalpesh Gothi:** As a full year?
- Saurabh S Dhanorkar:** Full year external is Rs 790 crores and captive about Rs 780 crores.
- Kalpesh Gothi:** Breakup of the PVC pipe and fittings in terms of amount.
- Saurabh S Dhanorkar:** In terms of amount, fitting as I said the total amount is about Rs 190 crores for the year and for the quarter about Rs 57 crores.
- Kalpesh Gothi:** And what was the volume growth for the PVC fitting?
- Saurabh S Dhanorkar:** Fittings volume growth was about 8 to 9%.

Kalpesh Gothi: Sir you had talked about the volume has impacted because of the hail storm, what was the growth for the first two months January and February 2015?

Saurabh S Dhanorkar: I don't have that off hand, we will share with you.

Kalpesh Gothi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jeetu Punjabi from EM Capital Advisors. Please go ahead.

Jeetu Punjabi: What are the current trends we have seen, I heard you say on the growth you expect for the year but currently are things still very weak in the market.

Prakash P Chhabria: No I just said that the actually for few weeks since mid of March 2015 we are working on hand to mouth. I mean my production is sold out so that's what I said. So right now at the moment it is like we are back on track.

Jeetu Punjabi: What are you seeing from a government policy action in the rural markets?

Prakash P Chhabria: Like I said government is taking a lot of positive steps for the farmers and we are seeing it because when the rural market opens up, it's basically because of the farmer has money in his pocket. No farmer gets the money in his pocket either by selling produce and/or getting subsidy or something from the government and therefore this demand has really opened up which means both things are working. That means the crop has been sold or he is getting his money or whatever so that is directly a clear signal of government's positive involvement.

Jeetu Punjabi: What are you seeing from a competitive standpoint, what do you see competitors doing, are they doing anything different or do you see anything interesting new happening in the market?

Prakash P Chhabria: In the agriculture market there is nothing really much happening, it's basically in the non-agri where we have traditionally been weak so we're basically trying to catch up in our non-agri business and I think they are doing a good job in that. There are new products being launched, I don't know how good or how bad they will do in the long run because they are very exclusive products for exclusive businesses so the quantity, the volumes, and the demand will be very-very miniscule compared to the whole overall business. So I really don't know, we will have to see how it pans out.

- Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** You have seen an increased interest from different state governments on integrated irrigation projects. Now we have a subsidiary group associate company to be specific this is also into micro-irrigation, so I have two questions on this. First, does it lead to an advantage if both the companies bid together for these kind of projects and second if we have any chance for entering into such kind of arrangement?
- Prakash P Chhabria:** We directly benefit from it because we supply them pipes so whatever upside is there in the drip business, all the micro-irrigation business we are directly getting benefits from that.
- Viraj Kacharia:** Sir what I really meant it, like you have the recent announcement from the Karnataka government giving end to end solution so both drip irrigation as well as end-to-end solutions.
- Prakash P Chhabria:** Correct that end-to-end solution my involvement will be supplying of PVC pipes so which I'm doing right now also. The advantage I get of being in the drip irrigation business in the structure in which we have today because then I can also supply pipes to other drip manufacturers so therefore I get the best of both worlds.
- Viraj Kacharia:** So that was the reason I wanted to ask because we have another large player who is present across the value chain and who claims to have a benefit because of presence across the value chain so wanted to just get a sense, does it lead to any benefit from a bidding perspective for these kind of projects?
- Prakash P Chhabria:** No, how does it matter.
- Viraj Kacharia:** For this group associate, it is a humble request if they can provide the results on a semi-annual or yearly basis because we have a significant
- Prakash P Chhabria:** *No I think soon with the new accounting practice coming into place, we will have Pune so the company will start following the new accounting practice.*
- Viraj Kacharia:** Because it's a significant stake and it's not been appreciated. Any idea what the performance has been of that associate for the year?

- Prakash P Chhabria:** Not really I have been busy with my business so I think Monday or Tuesday will come to know.
- Viraj Kacharia:** Thank you.
- Moderator:** Thank you. The next question is from the line of Arun Baid from Religare Capital. Please go ahead.
- Arun Baid:** How is the movement with regards to VCM prices been in last quarter?
- Prakash P Chhabria:** VCM has been quite stable, it has not moved up that much; it didn't go down also that much so it's been quite stable. It's been around that \$800 levels.
- Arun Baid:** And currently it's at the same level?
- Prakash P Chhabria:** Yes same, now anyways the jetty is closed so we are not really tracking it but it is at the same level.
- Arun Baid:** For the next year on a company wide basis what kind of margins should we expect from you on the operating level?
- Prakash P Chhabria:** In the current year you mean?
- Arun Baid:** Yes sir.
- Prakash P Chhabria:** It will be better than last year for sure and we hope to go back to the year before.
- Moderator:** Thank you. The next question is from the line of Durgesh Boikar from Elara Capital. Please go ahead.
- Durgesh Boikar:** Your inventory losses, were they mainly on PVC resin segment or even PVC fitting segment, pipes and fittings?
- Prakash P Chhabria:** Mainly resin, so resin raw material, resin work in progress and resin finished stock.
- Durgesh Boikar:** You were going for this Brownfield expansion pipe 30 MTPA in pipes and fittings so that is on track?
- Prakash P Chhabria:** Yes the pipe division expansion is always on track.

Durgesh Boikar: Because in your PPT the jump that it shows is from 230 to 250 KTPA so only 20 MTPA so is the remaining 10 MTPA was added after that?

Prakash P Chhabria: Yes, again what happens is even when the capacity is added, the season changes from big size too small size that machine will not produce same quantity in the same time a market is going to produce less quantity in the same time and as we have added the capacity but if the season changes then I cannot be adamant and not follow the market so we will follow the market.

Moderator: Thank you. We have got a follow up question from the line of Arun Baid from Religare Capital. Please go ahead.

Arun Baid: Sir just a bookkeeping question, in this quarter I saw your other expenses going up significantly higher, was there any reason for it?

Prakash P Chhabria: We wrote-off couple of things like what we mentioned in our foot note, the company used to have an aircraft and which went through an unfortunate accident and we had filed our insurance claim and everything but the team never came through so we have to write that off so wrote that off, number one. Number two we launched this new thing of getting into these verticals of other products so therefore we had all these advertisement expenses and all so that's all.

Arun Baid: But going forward it should normalize?

Prakash P Chhabria: Yes.

Moderator: Thank you. The next question is from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: I just want to know for making 1 ton of PVC pipes how much PVC resin will be used?

Prakash P Chhabria: About 90%. 1 ton of pipe will require about 900 kilos of PVC resin.

Vipul Shah: So by when should we stop selling that to the outside the way we are adding 50,000 tons in pipe roughly every year, right?

Prakash P Chhabria: Yes but what happens there are days when external PVC is cheaper so we do that arbitrage so therefore this will happen in the next 2-3 years we will be making that

much amount of pipe but basically it is not necessary we will always keep consuming that, we will also sell arbitrage.

Vipul Shah: So we sell our PVC and we buy from market also depending on the rate?

Prakash P Chhabria: Correct.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: How much you have spent last year approximately on brand building or the advertisements expenses and are we seeing to add the expenses significantly going forward?

Prakash P Chhabria: So that was a one-off we spent and that's why we went up to as high as Rs 15-16 crores but it's not going to happen every year because we have not doing the same run-on every year so I don't think that kind of a number will come for the next 4-5 years at least. It will be even back to the same numbers like the year before last year, anywhere between Rs 4 to 8 crores.

Maulik Patel: One question is on pipe business margin, though this year we are not looking into because of the volatility into the crude prices but do you think we are on track to achieve something around 9.5% EBIT margin in next two years?

Prakash P Chhabria: Like I said earlier our aim will be to go back to what was year before last so not last year because but the year before last and it is definitely our idea to get back to double digits and more.

Maulik Patel: You are talking about pipe business?

Prakash P Chhabria: Yes.

Maulik Patel: In FY14 we did around 8.4% EBIT margin and on EBITDA side we did around 9.8%.

Prakash P Chhabria: Correct so I'm talking about double-digit 9.8% and 10% double-digit something like that.

Maulik Patel: So it is about EBIT margin right?



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- Prakash P Chhabria:** Yes.
- Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Walfort Financial. Please go ahead.
- Kalpesh Gothi:** Sir what is our target and how much amount we want to reduce our debt for the FY16?
- Prakash P Chhabria:** These are tough questions because last year target was much more than Rs 75 crores. We were able to do only Rs 75 crores because of the conditions.
- Kalpesh Gothi:** But now we are much more bullish then.
- Prakash P Chhabria:** Yes so this year if there is like a normal year and with no shocks like last year than we want to double that at least.
- Moderator:** Ladies and gentlemen this was the last question. I now hand over the floor back to the management.
- Prakash P Chhabria:** Thank you everybody, thank you very much for attending the conference call.
- Moderator:** Ladies and gentlemen on behalf of S-Ancial Global Solutions Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

For Further aeries:



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



S-Ancial Global Solutions Pvt. Ltd.
503, Gundecha Chambers,
Nagindas Master Road,
Fort, Mumbai 400 001
Email: fil@s-ancial.com
Contact No.: 022 6635 1004/5