



“Finolex Industries Limited Q4FY2012-13 & Annual FY2012-13 Results Conference Call”

May 06, 2013



**MANAGEMENT: MR. PRAKASH P CHHABRIA – CHAIRMAN.
MR. S. S. DHANORKAR – MANAGING DIRECTOR
MR. P. SUBRAMANIAM – ASSISTANT MANAGING DIRECTOR
& CHIEF FINANCIAL OFFICER**

Moderator

Ladies and gentleman good day and welcome to the Finolex Industries limited Q4 FY13 and Annual FY2012 - 2013 Results Conference Call hosted by S-Ancial Advisors Private limited. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Sajit P of S-Ancial Advisors, thank you and over to you sir.

Sajit Pisharodi

Thank you Inba. Good afternoon ladies and gentlemen I welcome you to the 4th quarter and analyst conference call of Finolex Industries Limited. The investor's presentation has been put on the website. We have with us for the call today the Management of Finolex Industries Limited represented by Mr. Prakash P Chhabria – Chairman, Mr. S S Dhanorkar – Managing Director and Mr. P. Subramaniam – Assistant Managing Director & Chief Financial Officer. I now hand over the call to Mr Prakash P Chhabria. Over to you sir.

Prakash P Chhabria

Thank you, good afternoon to everybody I am happy to report that Finolex Industries has shown an all-around improvement in the performer's during the last financial year. Our top-line has grown to Rs. 2145 crores as compared to Rs. 2100 crores. The EBITDA for the full year was Rs. 296 crores versus Rs. 247 crores. A good 20% growth over the last year. Profit before tax has grown to Rs. 190 crores as compared to Rs. 97 crores, a growth of 96%. Net profit for the full year has jumped by about 81% to Rs. 136 crores from Rs. 75 crores.

The improvement in profitability is mainly on account of various reasons like better realization, better coal prices, and financial cost control. In the last quarter of FY13 we achieved a turn-over of Rs. 630 crores as against Rs. 600 crores for the corresponding year, a growth of 6%. EBITDA for the quarter was up by 20% for the corresponding quarter of 2012 at Rs. 132 crores. Profit before tax as grown to Rs. 111 crores from Rs.73 crores in the corresponding quarter and the net profit for the quarter stood at Rs. 79 crores as compared to Rs. 56 crores for the corresponding quarter, a good jump of 41%.

In the last financial year we have commissioned our new PVC Pipe manufacturing plant at Masar near Baroda in Gujarat. With this expansion of pipe manufacturing capacity has grown to 2.1lakh Metric tons. They have increased our emulsion grade PVC capacity also at Ratnagiri by about 10,000 tons making it 20,000 tons. Where by the total PVC capacity has now gone up to 2,70,000 tons. The demand for the company's product that is pipes, fittings and PVC resin continue to be strong. The Government of India's various initiatives in rural water management and irrigation sector in the coming years is expecting to generate a substantial demand for PVC pipes and fittings and consequently for PVC resins. With our leadership position in the PVC pipe Industry and a strong Pan India distribution network the company is well poised to benefit in the coming year.

I would now like to answer the questions if any.

- Moderator** Our first question is from Bhavin Chheda of Enam, please go ahead.
- Bhavin Chheda** If you can share with us the production number of PVC resins and PVC pipes and also the merchant sales volume number?
- Prakash P Chhabria** PVC pipes has gone up for the full year by about 18% and PVC as you know has been flatish there has hardly been about 4% to 5% growth because that being a petrol chemical industry. What we aim to do is keep on consuming more and more PVC into pipes and therefore if you see even though the turnover is flattish the bottom line keeps it growing.
- Bhavin Chheda** In terms of numbers PVC pipes production would be Rs. 1,76,000?
- Prakash P Chhabria** Say it again, sorry-
- Bhavin Chheda** Production volume number of PVC pipes?
- Prakash P Chhabria** Was about 176,000 tons.
- Bhavin Chheda** Sales would be equivalent to that number only, right?
- Prakash P Chhabria** Yes, roughly.
- Bhavin Chheda** PVC production if I see should be Rs. 2,70,000?
- Prakash P Chhabria** Yes, it was around 250,000.
- Bhavin Chheda** 2,50,000 production?
- Prakash P Chhabria** Yes.
- Bhavin Chheda** If you can give me sir merchant sales volume of PVC resins because after captive consumption?
- Prakash P Chhabria** Merchant sales was close to 60,000 – 70,000.
- Bhavin Chheda** Around 70,000 tons?
- Prakash P Chhabria** That's right.
- Bhavin Chheda** Power segments also if you can give us the generation number and the merchant sales number?

- Prakash P Chhabria** Out of 43 megawatts we consume more than 50% including _____ **5.44**, so whatever partially is left is about 16 – 17 megawatts which is fed into grid and sold to MACD. What we also did is started consuming our own power in _____ **5.53** pipe factory. So thereby what we are trying to do is consume more and more power of our own and that helps the bottom line because as you know the MSCB prices keep going up. Therefore the CPP is helping us to maintain the price down.
- Bhavin Chheda** Sir your press release doesn't have the FY'13 FOREX numbers so if you can help me with that also it has of the quarter 18crores gain and previous quarter 37 crores loss, so how much would be the FY13 FOREX MTM?
- Prakash P Chhabria** As FOREX MTM so to say was about marginally down 7.5 crores.
- Bhavin Chheda** MTM plus whatever you must have paid, so how much we have to adjust from the EBITDA?
- Prakash P Chhabria** I will hand it over to Mr. Subramanian to answer.
- P. Subramaniam** For the current quarter the exchange gain is about 18 crores.
- Bhavin Chheda** Right sir. And for December quarter it was written as 37 crores loss
- P. Subramaniam** Yes. 37 crores loss was there.
- Bhavin Chheda** I believe quarter 1 had a 77 crores loss right?
- P. Subramaniam** 1st quarter was 74 crores loss, second quarter we have 38 crores gain.
- Bhavin Chheda** Second quarter at 38 gain?
- Prakash P Chhabria** But as you know these are not realized losses or gains, they are not necessarily a realized loss, the first quarter, second quarter, third quarter and fourth quarter.
- Bhavin Chheda** Yeah, I understand that, so for the full year it is around Rs. 55 crores of MTM provisioning?
- Prakash P Chhabria** Yeah, That's right
- Bhavin Chheda** And now sir as on March 31st anything pending, if you can give us the gross value on which is pending and all that?
- Prakash P Chhabria** Pending as in the, what do you mean by pending?
- Bhavin Chheda** Any FOREX provisioning which is pending?

- Prakash P Chhabria** No, there is no provisioning pending like I said when looking at the Rs. 54 crores loss for Mar'13 it is not necessarily a loss if you see between March13 to now the dollar has weakened and rupee has improved, which means that loss is now converting in to profit. It is not an established loss it is a notional loss in the books that's all. It's not a lost loss. Actually at the moment all of the losses are on a profit then.
- Bhavin Chheda** My last question sir on the PVC pipe production target for this fiscal since our capacity has gone up to 2 lakh ten thousand-
- Prakash P Chhabria** So the target will be close to 210.
- Bhavin Chheda** Close to 210. Okay thanks a lot sir.
- Moderator** Thank you very much. Our next question is from Rabindranath Naik of SBI Cap securities. Please go ahead
- Rabindranath Naik** I want to have 3 to 4 clarifications from my side. Can you please tell me why the inventory has gone up by 50% in the current year as compared to last year? That is one and the capital expenditure and FY14 what is the guidance for capital expenditure for FY'14. This Rs. 60 crores CWIP that is in there in the balance sheet that we have given, so is it related to Gujarat PVC pipeline or anything else and other thing is that what is the current realization for the power sale or the PPA that we have signed with the MSEDCL. How much realization that we are getting average addition I am not talking about pin point realization but I am talking about average realization that we are getting from the MSEDCL and the other thing is the what is the your outlook on the raw material front going ahead.
- Prakash P Chhabria** Let me ask Mr Dhanukram, Managing Director to answer all these questions.
- Dhanukram** On the inventory as compared to 31st March, 2012, the inventory as of 31st March, 2013, is higher and that is mainly because we have started building up the inventory pre monsoon, normally we start building up the inventory pre-monsoon by about end of April, early May. This year we saw that the PVC prices had moved up substantially but comparatively EDC prices were lagging behind so we preponed our booking and that is why only the raw material prices, I mean the raw material inventory has gone up. We managed to book a good quantity of EDC at much lower levels than what they were in April or May.
- Rabindranath Naik** That means you can capitalize or in these whether your realization output realization will remain same and you will built up the lower cost of EDC in you raw material cost?
- Dhanukram** Correct. So the inventory is mainly in the raw material and not in finished goods. I will take the next questions regarding-

- Rabindranath Naik** The capital expenditure.
- SS Dhanorkar** Capital expenditure basically I will leave it to Mr. Subramaniam to give the details.
- P. Subramaniam** CWIP is basically related to balance jobs of Master plant in Gujarat. Some amount of expenditure also as Urse expansion and there is some normal capital expenditure which happens every year which is carried forward nature. These are the major jobs.
- Rabindranath Naik** What is the guidance for FY14. in terms of capex?
- Prakash P Chhabria** Capex this year we are restricting only to the Phase-II of the Master plants. There is not going to be any major CAPEXes.
- Rabindranath Naik** But quantum sir, can you please specify the quantum?
- Prakash P Chhabria** It will be less than 30 crores.
- Rabindranath Naik** About the realization in Maharashtra, what is the merchant realization you are getting in Maharashtra?
- Prakash P Chhabria** Our average that we are getting about six rupees, five and half to six rupees including the sale to MCB and our pricing, transfer pricing.
- Rabindranath Naik** Okay, average six rupees realization you mean to say.
- Prakash P Chhabria** Yes, for the whole plant.
- Rabindranath Naik** What is the coal cost that you are incurring in your total cost?
- Prakash P Chhabria** Coal is you know as of now gone down so the FOB price of coal is around 60\$ - 65\$.
- Rabindranath Naik** So you are procuring from Indonesia?
- Prakash P Chhabria** Indonesia because we have our own coal jetty, what happens is the mother ship comes to the anchorage and we have this small ships again supplied by the shipping company which comes to our jetty and in the jetty we have these coal gravels so they put them on the conveyer and the conveyer goes directly to the stock yard.
- Rabindranath Naik** So it is 65\$ per ton?
- Prakash P Chhabria** Yes, about.
- Rabindranath Naik** Including the transportation sir?

- Prakash P Chhabria** Transport will be another \$12.
- Rabindranath Naik** Regarding the raw material front what is the outlook going ahead in this year? What is your outlook?
- Prakash P Chhabria** What we find is that because of Shale gas being developed rapidly in the western countries specially America and Shale gas being the new mantra for the hydro carbons, for energy, for power we find that is directly affecting the pricing of raw-material and therefore the raw-material prices are easing off, they are becoming softer and softer. And this directly benefits the bottom line of the company. Now where as the price of PVC is still steady and high because of the demand in India which is very strong.
- Rabindranath Naik** I am sir just looking at the EDC prices one of the main raw material for manufacturing PVC if I am not wrong, so what is the outlook on that.
- Prakash P Chhabria** It looks to be softer. It is going soft.
- Rabindranath Naik** So FY14 you are looking at it will remain soft
- Prakash P Chhabria** Yes.
- Moderator** Thank you. Our next question is from Maulik Patel of Equirus Securities. Please go ahead.
- Maulik Patel** How do you see the demand for the PVC pipes, Have you seen like whatever the growth number you have put in is more of a distribution lead growth or is it the same distributor are giving you that growth?
- Prakash P Chhabria** We keep adding new dealers and distributors and sub dealers reason being we are the only company who sells Pan India. We have all the states of the country. We supply not only from Pune and Ratnagiri, but we are in Assam, we are in Kashmir, we are in south India. So it is the new dealer, new market, new villages, and new cities.
- Maulik Patel** So that is there in the growth. And how do you see the house like, in your PVC pipes what will be the split between irrigation and housing? If you can-
- Prakash P Chhabria** About 70%-30%. 70% is the irrigation.
- Maulik Patel** 70% is the irrigation and 30% will be the housing?
- Prakash P Chhabria** Definitely.
- Moderator** Thank you very much. Our next question is from Kamlesh Kotak of Asian Market securities. Please go ahead.

- Kamlesh Kotak** Could you help us understand what's our strategy in regards of CPVC business. Still not that actively being looked up on how we see that business for?
- Prakash P Chhabria** We have been in CPVC. Yes. We have not been very aggressive that is true. Because we have been very busy doing the UPVC growth which is about 20% YoY. So we are pretty happy being focused on UPVC but definitely have also gone into CPVC. So in the next two to three years I think we will have a bigger impact of CPVC sales.
- Kamlesh Kotak** Can you help us share some numbers in terms of capacity or the revenue and how the raw material sourcing arrangement has been made?
- Prakash P Chhabria** CPVC capacity would be hardly 1% of the whole pipe capacity. There is a long way to go.
- Kamlesh Kotak** How we source the raw material for that?
- Prakash P Chhabria** We have two ways to do it. Either we buy the compound or we buy the PVC and make the compound. So we have two options available.
- Kamlesh Kotak** any constraint as regard to the growth or how you see I mean that business is also growing phenomenally for the leading players. So are we now not looking at that actively because that is even growing higher than the PVC growth, so I mean if raw material constraint is not there what stops us in getting in to that business aggressively.
- Prakash P Chhabria** We are definitely looking at it like I said in the next two years you will see a bigger number coming out of CPVC on the balance sheet.
- Kamlesh Kotak** And what would be the investment plan to that?
- Prakash P Chhabria** Investment for CPVC plant we don't think it will go more than Rs.10 crores or Rs.15 crores maximum.
- Kamlesh Kotak** So that will get us what capacity level?
- Prakash P Chhabria** We should be able to do close to 2000 tons of pipe.
- Kamlesh Kotak** Over all what's your sense in terms of the overall market opportunity at the size of that market.
- Prakash P Chhabria** Of CPVC?
- Kamlesh Kotak** Yes.

- Prakash P Chhabria** CPVC is constraint basically because of the raw material coming into India. If you see the total capacity of UPVC is 53 million tons. Out of 53 million tons CPVC is hardly 100 thousand tons worldwide. As a worldwide product itself compared to 53million, 100 thousand is not a big number. So therefore India has just started this and therefore it is a product which we can say as under limelight but as a steady product I really don't see it has got too much of an upside.
- Kamlesh Kotak** Do we take them as a long term suppliers I mean the raw material side what you said two supply sources we have so how that is not a constraint for us?
- Prakash P Chhabria** We had a meeting at about last month there was a petrochemical conference in Bombay last month where we met many of our suppliers from different countries so we have been given reassurance that our requirements will be met for 2000 tons.
- Kamlesh Kotak** Coming to PVC how is the demand scenario pending out vis-à-vis the supplies, because we understand most of the players are also expanding the capacity so is there enough room available for all to grow? What is your two to three years kind of a growth perspective on PVC pipes?
- Prakash P Chhabria** You know for the last 10 years we have been growing every year by a minimum of 15% annualized basis and we think India size the rural market, the agriculture demand, government spending on agriculture, irrigation, water, water resources, transportation, it's big. Therefore there is enough room for everybody to grow. It really needs product to be sold; we need to be there with the quality and brand.
- Kamlesh Kotak** Should we assume the kind of proportion will remain the same broadly 70:30 as you stated?
- Prakash P Chhabria** Yes. We should be able to do that.
- Kamlesh Kotak** So both the segments are growing it means?
- Prakash P Chhabria** That's right.
- Moderator** Thank you very much. Our next question is from the line of Sathya murthy of Sundaram Mutual fund. Please go ahead.
- Sathya Murthy** My question is on the outstanding debt – you have guided that the debt would be at Rs.450 crores to Rs. 500 crores at the end FY13. But the actual debt figure is around Rs. 700 crores. So what is your guidance for FY14? At what levels will the debt be?
- Prakash P Chhabria** No, I don't think we have mentioned about the debt going down by 50% in one year. So it's a plan which we have done to spread over 2 to 3 years and in the first year if you see we have

done a fantastic job from FY12 to FY13 we have been able to drop our debt by about 250 crores. So I think we are on the right track, we are very aggressive and we will do it.

Sathya Murthy

By end of FY15 we can see situation of zero debt.

Prakash P Chhabria

Definitely

Moderator

Thank you very much. Our next question is from the line of Amitabh Sonthalia of SKS capital and research. Please go ahead

Amitabh Sonthalia

I was calling to ask about your website is a common website to all your group companies for Finolex Industries and cables. Is this call specifically for the business of Finolex Industries only or-

Prakash P Chhabria

It is only for Finolex Industries.

Amitabh Sonthalia

Are you planning to have a separate call for Finolex cables, because that's also announced numbers and-

Prakash P Chhabria

I don't-

Amitabh Sonthalia

Is it the same group or is it a different family group?

Prakash P Chhabria

it's a same group, same family but totally partitioned. So I have no clue what they are doing. I also get to read the results only in the newspaper or website.

Amitabh Sonthalia

So there is no link. So there is no direct link but you do own share in cross holding. Right?

Prakash P Chhabria

Yes there is cross holding. That is right. It's a same family

Amitabh Sonthalia

The same management or different management.

Prakash P Chhabria

Different people. Totally different people, therefore we don't step into each other shoes.

Amitabh Sonthalia

But we do have a common website so and you are cross holding. I am just wondering is the cross holding issue going to remain or is there any long term solution to that.

Prakash P Chhabria

We are looking at solving that cross holding we are working on it. Unfortunately as of now we don't have a solution to that.

Amitabh Sonthalia

And what is the quantum of stake you hold in Finolex cable.

Prakash P Chhabria

We own about 14%.

Amitabh Sonthalia 14%?

Prakash P Chhabria That's right.

Amitabh Sonthalia But Finolex cables hold a larger stake in the –

Prakash P Chhabria They own about 32%.

Amitabh Sonthalia Okay so then they could be considered more as a holding company of Finolex Industries.

Prakash P Chhabria Something like that. Yes. But between the two of us and all our holdings we own 51% in each of the companies.

Amitabh Sonthalia Direct promoter is-

Prakash P Chhabria As well as the cross holding.

Amitabh Sonthalia Okay and so you hold 14% Finolex which obviously is valued as shown a long term investment in your books?

Prakash P Chhabria That's right.

Amitabh Sonthalia And you are saying that you are open to evaluating options on addressing this issue of?

Prakash P Chhabria Unlocking of the cross holdings.

Amitabh Sonthalia And you would not be able to comment on anything of their business whether they are planning to also?

Prakash P Chhabria I am sorry extremely sorry but I have no Idea.

Amitabh Sonthalia I would appreciate if you could convey to the Finolex cable management that you know it is from the same group so I just dial into the call thinking it is a joint call actually my direct interest was more in the cable business.

Prakash P Chhabria Not an issue. I will pass it on.

Amitabh Sonthalia I have seen that Finolex Industries is more investor friendly than the Finolex cables and I just want to know the reasons for that.

Prakash P Chhabria Thank you. You made the right call.

Amitabh Sonthalia I would like the other company since it is a sister company I would like them to-

- Prakash P Chhabria** I will pass on the message.
- Amitabh Sonthalia** So if you can convey that to them it will be good.
- Moderator** Thank you very much. Our next question is from Jignesh Kamani of Nirmal Bang, Please go ahead.
- Jignesh Kamani** Just wanted to check about the efficiency of the balance sheet because earlier we used have a very low ROC of 8.7% because of 2 or 3 reasons that even though we one side we have high liquid investment and even though we used have a high debt of 1.2x number 1. Number 2) we used to pay our dividend pay of 50 to 60% even though we carry a very high debt of around 1.6x in FY12. So any thought on streamlining the both of the debt?
- Prakash P Chhabria** Like I mentioned we have made a commitment to reduce debt as compared to FY12, FY13 the debt is down by around Rs. 250 crores and by FY14 - FY15 I think may be by FY15 we want to bring down the debt down to Rs. 500 crores. So we are working very aggressively on it.
- Jignesh Kamani** No, But I am talking about one side we are having almost Rs. 400 crores of liquid investment if you remove the investment in Finolex is around Rs. 350 crores kind of debt which we are carrying and one side we are having a high debt of 1.2x, any reason behind that?
- Prakash P Chhabria** Reason behind carrying?
- Jignesh Kamani** Both liquid mutual fund and carrying high debt?
- Prakash P Chhabria** Liquid mutual fund are basically because we used to hold a lot of short term debt for our working capital on the buyers credit and now as the cycles are improving and the cash flow is improving we will not be getting more and more into buyers credit and therefore automatically deleting our investment in to liquids.
- Jignesh Kamani** So our liquid investment will come down gradually?
- Prakash P Chhabria** Gradually.
- Jignesh Kamani** And hence the debt also?
- Prakash P Chhabria** That's right
- Jignesh Kamani** What is the total dividend pay on because we generally pay 50% to 60% payout but debts continued remain high. One side we are paying higher interest of 8 to 9% and also we are liable to around 16.6% dividend tax. We are almost losing 25% on that-
- Prakash P Chhabria** So, sorry what is the question about the dividend?

- Jignesh Kamani** Generally we pay 50 to 60% dividend payout?
- Prakash P Chhabria** And we have declared it this year a healthy 55%.
- Jignesh Kamani** So generally there is 16.6% dividend payout ratio and we already have high debt of around 1.2x. So, where we are paying around 8% rate of interest. Effectively on account of that we losing 16.6 plus 8% almost 23 to 24% we are losing on the money. Rather than you can say paying out dividend to dividend it is better to reduce our debt?
- Prakash P Chhabria** Yes, Like I said, we are working very aggressive on it and we hope to achieve those numbers much faster but prudently we will do it by FY14 or FY15. But we hope to do it much faster.
- Jignesh Kamani** Is it safe to assume that we do not have much CAPEX going forward next 2 or 3 years?
- Prakash P Chhabria** Not really, no not much CAPEX at all. Whatever CAPEX will there will be hardly less than Rs.30 crores.
- Jignesh Kamani** What is our target ROC?
- Prakash P Chhabria** Target ROC being a cyclical industry we don't give out too many forward looking statements but what we aim to do is if you ask me for what will be the spread what is the possibility of... I will say it will improve definitely. Because the way we see the cycle now what we saw in the fourth quarter what we are seeing in the cycle in the first quarter we are seeing the cycle improving. So therefore all I can say definitely it is going to improve.
- Moderator** Thank you. Our next question is from Neeraj Marathe of HU Consultancy. Please go ahead
- Neeraj Marathe** Two questions. First question was on the media reports of the company's planning to setup a fourth facility. So just wanted to get an idea of about what would this facility be about would it be for PVC pipes or there were also talks about new products like window profiles and all. That was my first question.
- Prakash P Chhabria** Company is as we know we just started of commercial production in March in Masar for Phase-1. We want to implement Phase-2 in this year which we will and going forward for FY15 and FY16 we already are planning either we will expand Masar further or we are looking at another location so that the different market can be served for different location. So that we should be able to come to a conclusion in next 6 to 7 months and one year after that we should be able to complete it. This is basically going to be for PVC pipes only and coming to your question about window profile, the company always coming out other options on extrusion because as you now pipe is an extrusion, profile is extrusion but the product is different, the markets are different therefore we are not jumping into it but we are studying it from far.

- Neeraj Marathe** My second question was from the financials. Basically in our expenses we have these one item called as purchases of stock in trade which was on the higher side for FY'12 just significantly reduced for FY'13. So it was about Rs. 44 crores for the entire FY'12 and it has come down to 63 Lakhs for FY'13. So just wanted to understand what is this, is this from traded goods that we are doing purchases of stock in trade or is this some raw material now that we are doing it ourselves I just wanted to get an idea about what is this?
- Prakash P Chhabria** Let me give you a brief. We were doing a trading of EDC. EDC is one of our main raw materials and there is a local market for EDC. We were doing some small trading activity. But now we have decided to focus only on our main products that is pipes and fittings because the efforts required for handling this trading activity is not justified by the margin basically we have decided to give up the trading activity. The only trading so to say will be doing is we will be buying PVC as and when there is an arbitrage for our own consumption so to that extent PVC can be called a trading activity but EDC trading we have given up as a policy.
- Moderator** Thank you. Our next question is from Jignesh Kamani of Nirmal Bang. Please go ahead.
- Jignesh Kamani** I want to know about the margin if you take about the main improvement in the margin is taken care from the PVC resin. But our core PVC pipe business where we have our healthy retail chain in the diversified network we are not seeing any improvement in the margin in that business. So can you throw is it able to improve or no?
- Prakash P Chhabria** The pipes division margin has gone up.
- Jignesh Kamani** But it's not that significant. Major delta has come from the PVC resin only?
- Prakash P Chhabria** Major delta has come from PVC resin only because basically it is a value addition right. The value addition is reflected in the pipe business where as the benefit of raw material of EDC going down is reflected in the PVC business.
- Jignesh Kamani** So, because of transfer price increasing margin of pipe division is not visible or is both are on the same?
- Prakash P Chhabria** Transfer pricing does not allow me to show higher turnover. But transfer pricing allows me to transfer it at an arms length price to my own self which we do. And pipe price is basically a value addition on the PVC price. So therefore the delta between PVC and pipes is always going to be kept by the difference between the PVC and pipe price. Whereas the big upside which comes for the company are basically going to be let's say another example to look at: Let's say there is a benefit in power so the power benefit is obviously going to be shown in the PVC division not in Pipes, because PVC is a bigger consumer of power. So one cannot just a compare an apple-to-apple, there is always going to be some shades of grey here and there.

- Jignesh Kamani** But if you compare with our competitor they are reporting where healthy margin in the PVC pipe business compared to us. Because of the value addition their margins are not comparable or what is the reason behind it?
- Prakash P Chhabria** I have not seen numbers where we can directly compare other pipe manufacturers because everybody does various other products while we do only PVC pipes. And then to say whether niche product is giving them a higher margin at a lower volume or on a higher volume will be impossible to be seen through the numbers which are published.
- Jignesh Kamani** Second thing little long term since we have a very healthy dealer network, are you planning to capitalize on that by launching other products may be you can outsource kind of and building a brand on that?
- Prakash P Chhabria** Yes definitely we always looking at products, because India is a huge market and we are spread across all the states of the country. So we are looking at the products but we don't want to jump into something which is totally irrational and which will not be, we are looking at it and hopefully we should be getting in to something.
- Jignesh Kamani** So it will be manufactured at growth or more about outsourcing and use our brand name and distribute it?
- Prakash P Chhabria** Mostly I think outsourcing. We are open to manufacture also but I think mostly it will be outsourcing.
- Jignesh Kamani** Last question are we nearby anything to monetize our land bank? Or any thought process on that?
- Prakash P Chhabria** Not yet at the moment
- Moderator** Thank you. Our next question is form Arun Vaidya of IDBI. Please go ahead.
- Arun Vaidya** Sir, wanted to know what is the PVC pipe market size in India and how it has grown over last two years and second question was with regards the CPVC, what's is the current market size in India and how that market is growing in India?
- Prakash P Chhabria** If you see we have been growing by about 15% per year on our pipe business on tonnage basis. And the total pipes capacity in India which is going up the pipe demand which is going up by about 10% right now the pipe demand in India has reached to 1.4 million tons.
- Arun Vaidya** And with regards to CPVC what would be the market size?
- Prakash P Chhabria** CPVC market I said thing is at very small in print I think it is in between 50,000 to 60,000 tons a year.

- Arun Vaidya** And that market so what kind of growth it is witnessing?
- Prakash P Chhabria** I really don't know what growth they will have in the last 3 to 4 years we have seen a very exponential growth and if you see the natural forces would say that at some place there would be some stabilizing which could happen in the next one or two years I think.
- Arun Vaidya** Sir is it true that CPVC is much better than PVC in your experience?
- Prakash P Chhabria** CPVC is much better than PVC if you want to use hot water at 95°C but if you not going to use hot water I don't see why you use CPVC. It is like saying that you are going to take Ferrari into the jungle because it is a fast car. But the minute you take the Ferrari into jungle within one minute it will be destroyed. So it's a different application nothing to do with PVC.
- Arun Vaidya** Sir and you said PVC pipe market is about 1.4 million tons how is it grown with 10% also this year volume wise?
- Prakash P Chhabria** Yes.
- Moderator** Our next question is from Aditi Murkute of Iden Advisors. Please go ahead.
- Aditi Murkute** One question has already been answered: what is the market share and what the market thing. But I would like to ask about the debt part. You said about the debt is actually Rs. 250 crores like this is about the actual consolidated over the years or it's just?
- Prakash P Chhabria** No what I said is the debt as on March FY12 was close to Rs. 1000 crores and the debt for FY13 has been reduced by Rs. 250 crores and in the coming years we want to further reduce our debt by another Rs. 250 crores.
- Aditi Murkute** What is the EBITDA of it? I mean-
- Prakash P Chhabria** Our EBITDA for the year was Rs. 296 crores compared to Rs. 247 crores.
- Aditi Murkute** Compared to?
- Prakash P Chhabria** 247 crores. It has gone up from 12% to 14%.
- Moderator** Thank you. Our next question is from Rabindranath Naik of SBI Cap securities. Please go ahead
- Rabindranath Naik** Sir, One thing what is the total volume of power sold in 4th quarter and what is the total power volume that is sold in a merchant basis and how much power is used in captive basis?
- Prakash P Chhabria** Like I said earlier out of 43 MW we consume major of it in house and

- Rabindranath Naik** I am just looking at unit wise, Sir?
- Prakash P Chhabria** Unit wise. One minute then I will tell Mr. Subramaniam to give you the numbers.
- Subramaniam** Out of total 282 million units that was generated, 118 million units were sold to MSEDCL in the grid.
- Rabindranath Naik** That is around Rs. 6 per unit?
- Prakash P Chhabria** No. I said the average of the transfer price and the average sold the total average for the 42MW is Rs.6, not the price to MSEDCL.
- Rabindranath Naik** It includes your transfer price also?
- Prakash P Chhabria** Exactly. Yes.
- Rabindranath Naik** What is the MSEDCL prices realization you are getting from MSEDCL?
- P. Subramaniam** Currently the realization is Rs. 4 per unit. Rs. 4 onwards because it has got a variation between day time and night time.
- Rabindranath Naik** What is the day tariff sir?
- P. Subramaniam** It depends on number of units actually loaded, minimum weighted average is Rs 4 and above
- Rabindranath Naik** You are not selling any power in the power exchanges?
- P. Subramaniam** No
- Rabindranath Naik** And this thing the night time would be lower you mean to say?
- Prakash P Chhabria** That's right.
- Moderator** Thank you. Our next question is from Akash vora of Raj Investments. Please go ahead.
- Akash Vora** Sir I just wanted to know the process of PVC manufacturing is it that we produce VCM plus EDC by that process we produce PVC is it individually produce PVC or how is that
- Prakash P Chhabria** We have two lines of production. And therefore it gives us flexibility on the availability of raw material, pricing, etc. The first line is where we import EDC and ethylene. We crack EDC and make our VCM. The HCL which is released which goes into oxychlorination and is mixed with ethylene and again fed back into the cracker, so that the VCM is made into the PVC. The second line that where we import the VCM itself and make PVC.

- Akash Vora** So what is more reasonable, Importing VCM or the process which we do?
- Prakash P Chhabria** The first process is much beneficial because first of all it is 20 years old. The plant has become 20 years old. So the depreciation charges and all that is gone. The PVC expansion lot of VCM is very recent. So therefore it is a different calculation.
- Akash Vora** Can you just give me a ballpark figure on how much per ton VCM would cost how much per ton EDC process would cost?
- Prakash P Chhabria** Conversion cost?
- Akash Vora** Yes sir.
- Prakash P Chhabria** We will have to get back to you because first you have to understand the capital cost required for converting from VCM to PVC versus the capital cost of converting from EDC to PVC is a big difference. If you go into today's cost, a brand new plant like ours with the first line with a manufacturing PVC out of EDC would cost anywhere close to 1000 crores I think. And if it was to be set up based only on PVC on board VCM that is without having the EDC cracker, ethylene, ethylene tanks and all that then the capital cost would go down to about Rs. 400 crores. So therefore it is a totally different ballpark.
- Akash Vora** Lastly, do we import PVC also?
- Prakash P Chhabria** For trading arbitrage- yes, at times not regularly.
- Akash Vora** That must not be a higher side number, right?
- Prakash P Chhabria** No, definitely not.
- Moderator** Thank you. Our next question is from Bahwan Cheddar of Enam. Please go ahead.
- Bhavin Chheda** Sir, this is a continuation. What would be the capacity of first line and second line be? How the breakup of PVC would be?
- Prakash P Chhabria** The capacity is about half- half. 135 – 140 something like that.
- Bhavin Chheda** Capital cost based on current cost you said first line would cost Rs. 1000 crores, second line would cost Rs. 400 crores if one has to set up this line.
- Prakash P Chhabria** Now the only small correction to this Rs. 1000 crores, yes but if you look at what we have got is a land bank touching the sea with our own captive jetty, captive terminals, ethylene tanks which carry ethylene minus 104 degree Celsius. So all these things if one was to really calculate and see then I do not know the figures would go much higher. If you just look at

VCM import also VCM comes cryogenic again if you want to bring it in bigger volumes. So unless you do not have a facility like in VCM import facility there is no question about just Rs. 400 crores. Rs. 400 crores is putting it on just land it is a Brownfield project but if you want a Greenfield price would just jump up much higher.

Bhavin Chheda In case of expansion you said in Masar Gujarat you will be expanding further. How much that would be?

Prakash P Chhabria About 20,000 tons more will be added.

Bhavin Chheda By when? By March 2014?

Prakash P Chhabria By March 14th.

Bhavin Chheda Apart from that there is no capacity expansion as of now, right?

Prakash P Chhabria What we are looking at in the next 6 to 7 months is to come up with another location or expand further in Masar.

Bhavin Chheda One correction, initial part of the call you said PVC merchant sales was around 70,000 tons, right? Which I think last year was 1,62,000. Is there some correction there or incase if I heard something wrong?

Prakash P Chhabria No, what happens is because we consume more and more of our PVC the resultant number for releasing into the market as merchant sales of PVC keeps dropping.

Bhavin Chheda Yes, because what I believe last year you had procured PVC from the market for PVC pipes but this year there is no procurement of PVC?

Prakash P Chhabria This year it was very less.

Bhavin Chheda So that is the reason merchant sales of PVC would have dropped substantially from last year's number, right?

Prakash P Chhabria That's right.

Moderator Thank you very much. The next question is from Rajesh Gandhi of B&K securities. Please go ahead.

Rajesh Gandhi Most of the doubts is already cleared. Couple of questions on our investments. We have some good amount of investment in the company Finolex Plasson. Can you just throw some light on how much stake we own directly and how much through some other group company and if

you can give some numbers this March 13th how much we report as a top-line and the bottom-line in that company?

Prakash P Chhabria Finolex Plasson is a joint venture between Finolex and an Israeli company called Plasson. It has been there for more than 10 years. The Chhabrias including Finolex own more than 65% of the company. But Finolex Industries we own less than 50% and therefore the results are not consolidating with us. They grow in a very conservative way because they follow the same philosophy of Finolex that is debt has to be lower we do not want outstandings in the market. So even though the market grows at substantial rate; the business grows, the profit grows but we do not grow at that rate because we do not want out standings.

Rajesh Gandhi Any ballpark top-line and bottom-line available for that particular company?

Prakash P Chhabria I think they do more than Rs. 250 crores turn over. They also grow by about 20% per year.

Rajesh Gandhi Any Net profit number?

Prakash P Chhabria About 15% to 18% is EBITDA.

Rajesh Gandhi Any debt in that company?

Prakash P Chhabria Very little margin. Like I said the reason they do not grow exponentially as big as the market grows is because of outstandings. We do not like out standings.

Rajesh Gandhi In past we have invested some Rs. 10 crores in the project called Breakwater Project I think at our Ratnagiri land bank and want to develop that particular for major expansions and at time we were also thinking of some small port type of structure?

Prakash P Chhabria So what we did is instead of completing the full Breakwater Project we spent that money and used it to develop our coal jetty. Because we set up a coal power plant (CPP). So the advantage the company gets is that the coal ships come up to the anchorage and this feeder ships go to the anchorage and bring into the jetty were there a huge grabbers which unload the coal and put them directly on to the conveyer which goes directly from the jetty on to the conveyer on to the coal yard.

Rajesh Gandhi Any thought process on how you can utilize the other free land bank at Ratnagiri or may be at Pune?

Prakash P Chhabria We do not have anything on the table right now.

Rajesh Gandhi Last question, who owns the Finolex Brand? Whether Finolex Industries, Finolex Cable or it would be a property of both the company?

- Prakash P Chhabria** Property of both the companies.
- Rajesh Gandhi** So no one is require to pay royalty for this?
- Prakash P Chhabria** Nobody pays royalty to anybody.
- Rajesh Gandhi** So both can use Finolex Brand?
- Prakash P Chhabria** That is right.
- Moderator** Thank you. We have a follow up question from Jignesh Kamani from Nirmal Bang. Please go ahead.
- Jignesh Kamani** In 2007- 2008 our main focus was PVC Resins gradually we increased our capacity of PVC pipes. So going forward if we continue to expand probably we will completely using in house PVC. So going forward what is the strategy? We will end up buying PVC from outside market or we will also expand PVC regularly?
- Prakash P Chhabria** As and when we require PVC under an arbitrage we do buy from the market but our aim is always going to be consumed all of our PVC into PVC pipes.
- Jignesh Kamani** No my question is right now for example we are selling around 70 tons additional PVC, so once we expand our capacity you can say....
- Prakash P Chhabria** If we fall short of our PVC we will buy it from the market.
- Jignesh Kamani** So there will be no further increase in the PVC capacity?
- Prakash P Chhabria** In PVC capacity, no.
- Jignesh Kamani** Then we are trying to become more of pipe companies?
- Prakash P Chhabria** Pipe companies that is right. Definitely pipe company.
- Moderator** Thank you very much. As there are no further questions from the participants I would now like to hand the floor back to Mr. Sajit P of S-Ancial Advisors for closing comments.
- Prakash P Chhabria** Thank you everybody.
- Sajit Pisharodi** Thank you everybody for attending the call. Thank you very much.



*Finolex Industries Limited
May 6, 2013*

Moderator

Thank you. Ladies and gentlemen on behalf of S-Ancial Advisors Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.