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FINOLEX
PIPES & FITTINGS

FIL/SEC/SEs/2023-24/104

23rd January, 2024

National Stock Exchange of India Limited	BSE Limited
Manager – Listing Department	Manager – Listing Department
5, Exchange Plaza	Registered Office: Floor 25
Bandra-Kurla Complex	P.J.Towers
Bandra (East),	Dalal Street
Mumbai 400051	Mumbai 400 001
Scrip Code: FINPIPE	Scrip Code: 500940

Sub: Transcript of the Earnings Conference Call (Q3 FY24)

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

This is in furtherance to our letter no. FIL/SEC/SEs/2023-24/095 and in terms of the subject referred regulation, we hereby submit transcript of Q3 FY'24 earnings conference call held on 19th January, 2024, for discussing the performance for the quarter and nine months ended on 31st December, 2023.

The same has also been made available on website of the Company under Investor's section.

Thanking you,

For **Finolex Industries Limited**

Ajit Venkataraman Digitally signed by Ajit Venkataraman Date: 2024.01.23 12:23:31 +05'30'

Ajit Venkataraman
Managing Director
DIN: 07289950

Encl.: As above

"Finolex Industries Limited

Q3 FY'24 Earnings Conference Call"

January 19, 2024

MANAGEMENT: **MR. AJIT VENKATARAMAN -- MANAGING DIRECTOR -- FINOLEX INDUSTRIES LIMITED**
MR. NIRAJ KEDIA -- CHIEF FINANCIAL OFFICER -- FINOLEX INDUSTRIES LIMITED

MODERATOR: **MR. ARUN BAID – ICICI SECURITIES.**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY'24 Earning Conference Call of Finolex Industries Limited hosted by ICICI Securities. As a reminder, all the participants' lines will be in 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arun Baid. Thank you, and over to you, sir.

Arun Baid: On behalf of ICICI Securities, I welcome you all to the Q3 FY'24 post-results con call of Finolex Industries. From the management side, we have Mr. Ajit Venkataraman, Managing Director, and Mr. Niraj Kedia, CFO. Now I hand over the call to Ajit for opening remarks, post which is the floor will open for Q&A. Over to you, Ajit.

Ajit Venkataraman: Thank you, Arun. Good morning, ladies and gentlemen. Wishing you all a very Happy New Year 2024. Welcome to the investor conference call with Q3 FY'24 earnings release. We thank you all for continued support and interest in Finolex Industries Limited. Q3 FY'24 continued to report strong operating performance despite fall in volumes on a year-on-year basis.

However, despite strong volumes based in FY'23, due to high pent-up demand, overall, our volumes on a YTDS basis has been a healthy growth backed by stable prices and consistent demand in both rural and urban segments. Let me give you some of the performance indicators for the first quarter.

Q3 FY'24 highlights. Total income from operations was INR1,119.67 crores for Q3 FY'24, down 9% against INR1,124.76 crores in Q3 FY'23. EBITDA increased by about 31% year-on-year to INR119.90 crores in Q3 FY'24 compared to INR91.87 crores in Q3 FY'23. EBITDA margins during the quarter increased on a year-on-year basis to 11.76% compared to 8.17% in corresponding previous quarter of Q3 FY'23. The company reported profit after tax of INR89.21 crores in Q3 FY'24 as compared to INR72.07 crores in Q3 FY'23.

Now getting into segmental performance. Pipes and Fittings. Pipes and Fittings revenue decreased by about 8% and to INR991.61 crores in Q3 FY'24 from INR1,077.15 crores in Q3 FY'23. Volumes in Pipes and Fittings segment reported a fall of 10% by year-on-year to 81,312 metric tons in Q3 FY'24 against 90,396 metric tons in corresponding last quarter.

This was primarily attributed to weak agri demand. The plumbing and sanitation volumes have been growing in a healthy double digit on a quarterly and also year-to-date basis. The EBIT in Pipes and Fittings segment, on the other hand, has increased by about 8% to INR74.24 crores in Q3 FY'24 compared to EBIT of INR68.90 crores in Q3 FY'23.

Moving to PVC Resin segment. Revenue in Resin segment decreased 36% year-on-year to INR321.07 crores in Q3 FY'24 compared to INR504.09 crores in Q3 FY'23. Volume in Resin segment decreased 32% to 43,737 metric tons in Q3 FY'24 against 64,696 metric tons in Q3 FY'23.

EBIT in Resin segment stood at INR30.88 crores in Q3 FY'24 compared to INR12.43 crores in corresponding previous year's quarter. The company continued to have a strong balance sheet with a net cash surplus of roughly INR1,570 crores as on 31st December '23.

Now let me leave the floor open to questions. Thank you.

Moderator: Thank you, sir. And the first question is from Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: Sir, I wanted to get a sense, there has been some resin price correction in Q3. Is there any inventory loss involved?

Ajit Venkataraman: Niraj, would you like to take that?

Niraj Kedia: Yes. Am I audible?

Ajit Venkataraman: Yes, you are.

Niraj Kedia: So you're right. See, when the quarter began in October, there was a sharp reduction of INR11 in PVC prices in a matter of 12 days. So that did have an impact on the profitability. In our case, see, because we use our own resin, so it is difficult to quantify the exact amount of inventory loss. But yes, due to that decline, there was some inventory loss. But if you look after that, during the quarter, there was a correction of INR5 over the period of the quarter. But on a net basis, during the quarter, we had some inventory losses.

Keshav Lahoti: Understood. Understood. What is the sense on the demand? Like H1 has been pretty strong for pipes volume, but we have seen some softening in quarter 3. How should we read it and what sort of volume growth you're looking for this year? And color would be helpful, like demand agri-wise and plumbing-wise and CPVC-wise? Yes.

Ajit Venkataraman: Keshav, in terms of demand, the demand in agri segment had petered out a little bit during the quarter. It started from Q2 and persisted in Q3. In terms of non-agri segment, we have seen some robust growth. We have grown almost in a robust high double-digit numbers. And therefore, going forward, the strength in the segments are very strong. Construction industry, we continue to see a growth upwards of 15%. And agri demand, we have to wait and see. We expected single-digit growth, but we have seen a delay in the market picking up yet. And this was mainly due to PVC prices being a little bit unstable throughout Q3.

Keshav Lahoti: Okay. Understood. So your agri pipe would have seen a sharp degrowth in quarter 3 year-on-year. What could that number look like? And how is your quarter 3 agri and non-agri mix...

Ajit Venkataraman: Keshav, I'm finding it difficult to hear you. Can you speak into the microphone, please?

Niraj Kedia: Can I answer, please?

Ajit Venkataraman: Yes, go ahead, Niraj.

Niraj Kedia: Yes. So Keshav, our agri and non-agri mix in Q3 in terms of volumes was 32:68, okay? Hello? Was I audible?

Keshav Lahoti: Yes. Yes. Got that number. And what is the agri degrowth in Q3?

Niraj Kedia: See, that will -- we don't give that number, to be honest. You can figure it out yourself from the price trend.

Moderator: Thank you. And the next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir, I just wanted to understand, given the ongoing global supply side challenges because of Red Sea, any difficulty with respect to sourcing of EDC, VCM and how do we see things shaping up for the next 3 months?

Ajit Venkataraman: So far, we have not had an impact yet, but we are holding a very close watch on the situation -- emerging situation in the Middle East, especially for shipments, and we are monitoring the situation. But as of now, we have not had any issues.

Karan Bhatelia: Right. So we've got strong inventories of 2, 3 months when it comes to EDC, VCM?

Ajit Venkataraman: Can you repeat that question?

Karan Bhatelia: I'm saying, do we now have 2 or 3 months of inventory of EDC, VCM at a company level?

Ajit Venkataraman: Yes, we are covered for the next couple of months...

Niraj Kedia: Yes. So just to clarify, we don't keep 3 months inventory of EDC, VCM. But as Ajit was saying, we are covered for the next quarter. We don't see any challenges as of now in any procurement of either EDC, VCM.

Karan Bhatelia: And on, sir, another question. How do we see infra as a segment growing for FY'24 after phenomenal volume growth in the Infra segment for FY'23?

Niraj Kedia: You're talking about Plasson or about us?

Karan Bhatelia: No. So for Plasson and for infra as a industry as a whole. So how do we see that shaping for FY'24 on a very heavy base of FY'23?

Niraj Kedia: I'll try and answer your question the way I understood. See, as Ajit said earlier, even this year, while if you look at our overall sales volume, it's single digits, but our plumbing and sanitation sales in terms of volumes, they are upwards of 15%, even on a YTD basis. So Infra is going strong. And our sense is that this should continue even in the next year.

Moderator: Thank you. And the next question is from Sneha Talreja from Nuvama Company. Please go ahead.

Sneha Talreja: Two questions from my end. Firstly, when you're saying volume growth, what is the kind of volume growth we're likely to see in this particular year? Earlier, you were guiding for 15%, but looking at the run rate, we are at 7% YTD, what should we expect for FY'24?

Ajit Venkataraman: So when you look at volume growth, you need to look at it from 2 different segments. In the agri segment, we were expecting a high single-digit growth for the year, which was true until September. Since September, we have seen a significant slowdown in the agri segment. And in the Construction business, we were looking at upwards of 15%. As the construction industry itself is growing upwards of 15%, which is why we continue to give the direction of 15-plus growth in the non-agri segment. The volumes in agri segment have not recovered yet. And we are expecting the market to open up soon because Q1 and Q4 are the strongest segments for -- I mean, quarters for the agri segment.

Sneha Talreja: Right. So that's on my understanding was that the real quarter is expected to come in. So what's your expectation in agri? Is it looking up because Q4 is a main quarter along with Q1?

Ajit Venkataraman: Correct. So we are hopeful, but it's very difficult to predict. Yes.

Sneha Talreja: Sure. Along with that, any reduction in PVC prices that you're seeing, given that there are supply disruptions globally, which have just started to pan out. Are we seeing any sharp up-move in PVC prices from here on?

Ajit Venkataraman: See, PVC prices have been range bound so far. We have seen the prices range between $750 and $800 per metric ton. At this point of time, it is still a range bound and it is almost at the lowest point at this point of time. It is between $750 and $770 per metric ton. And we expect it to be in this range bound -- in this range itself. So we don't see any specific reason why the prices will increase.

Sneha Talreja: Understood. And how CPVC pricing been faring? Has the bottom again that had been met? Or are we still seeing some cooling off of prices?

Ajit Venkataraman: CPVC prices have been on its way down. And it has been at the lowest point yet. So that is again a wait and watch. It is not directly correlated to the PVC prices.

Moderator: Thank you. And the next question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Just wanted a clarification on a couple of things. First is that I wanted to understand what kind of response are we seeing from our channel partners given to that coming soon the agri demand is supposed to pick up? So what kind of response are we seeing? Are they waiting to play out if there's any further fall in PVC prices or is there a decent response from there?

Ajit Venkataraman: So thanks for your question, Miraj. The PVC prices are at probably its lowest point yet at this point of time, and it is between $750 and $770 per metric ton. So the channel typically waits for the prices to fall in order to pick up inventory. So we are waiting for the markets to open up at this point of time. The market has been fairly lukewarm for most of Q3 and the first 2 weeks of Q4.

Miraj: Understood. Okay. So we're still waiting for them to pick up on sales from the channel that is there. And sir, secondly, I wanted to understand that the remainder land parcel that we have, I believe it's close to 36 acres, are we planning any sale on that front? Or are we still planning to keep it with us?

Ajit Venkataraman: Niraj, can you take that question?

Niraj Kedia: So, Miraj, see, it is a noncore asset. So Board had clearly mandated us that we need to dispose this off. We are still trying to sell it out. We were able to sell half 2 years ago. Half is still remaining with us. So some -- nothing has been finalized yet, but the intent is to dispose it as soon as possible.

Miraj: Understood. Are we, sir, any -- are we in talks with anyone for the land yet or it's still in a very early stages?

Niraj Kedia: See, talks keep happening. See, because obviously, when there's a land, you continue to pursue some of the buyers. So discussions keep happening, but there's nothing concrete as of now. But the intent is to dispose.

Miraj: Understood. Understood. Okay. Sir, just 1 last part. Can we have some clarity on what would be the value of the land of 36 acres?

Niraj Kedia: See, it is 35 acres, not 36 acres. We had 70 acres. And when we sold the first 35 acres 2 years ago, we made a net gain of INR376 crores. So whatever we get now from the remaining should be at least more than that, that's our view.

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

Rajesh Ravi: Sir, first, a few bookkeeping questions. Could you share the agri mix in volume and value terms in Q3 and for 9 months FY'24, please?

Niraj Kedia: Yes. in value terms -- sorry, in volume terms, this quarter, we had 32%. And overall also, for this YTD, which is around 32%, 33%. Value generally, we don't give because this is not a separate segment, but volumes what I have told you.

Rajesh Ravi: Okay. For the Q3, what was the PVC, EDC and VCM prices? And what are the current ranges for these 3?

Niraj Kedia: Sure. So for Q3, I would say PVC on an average was $787, EDC was $322, VCM was $645. So the PVC/EDC delta was $465, and the PVC/VCM delta was $143. If you look at it today, I have 1-week-old numbers with me. There is the latest number with us. PVC is at $760, EDC is at $350, VCM is at $620. The PVC/EDC delta is $410 and the PVC/VCM delta is $140.

Rajesh Ravi: Okay. Okay. Great, sir. In terms of the business, how are you looking at your CPVC? I understand you've stopped sharing the numbers for that but what is your view given that we were around 4% to 5% of the total volume compared to last year. So what is the view, given that resin supply domestically is increasing? So are you looking to increase this segment significantly from a 4%, 5% level? And if so, what is the level you're looking at?

Ajit Venkataraman: This you're talking about CPVC segment, right?

Rajesh Ravi: CPVC, sir. CPVC pipes.

Ajit Venkataraman: All right. So the CPVC pipe segment is a growing segment for us. And we have been showing steady growth in the last 3 to 4 years. And it is going to increase -- continue to increase its contribution to the overall business for Finolex Industries because most of these pipes go into apartments and housing, and the need for hot water and cold water pipes is going to be existent across and that segment is growing anywhere between 15% and 20%.

Rajesh Ravi: Okay. So on a small base, you're not giving any significant given that Meghmani Fine Chem and then, you know, Lubrizol next year would all be Meghmani Fine Chem has already increased capacity significantly and even the Lubrizol capacity will come next year. And so for the domestic supply, you've already been present in this market. What is your outlook from this 4%, 5% currently? Would it be significant, say, 10%, 15% level range?

Ajit Venkataraman: Rajesh, in the CPVC segment, we have been outperforming the market, yes? And there is no constraint in terms of PVC availability, either through imports or local supplies. And we have capacities to meet the market requirements and the growing market requirements within the company at the moment.

Rajesh Ravi: Okay. Understood. So the resin availability will not be a trigger for you to exponentially increase the volume. So this is where growth -- your growth trajectory. Understood. And sir, you mentioned that you have some inventory losses. I understand you might not be able to separate segments. But on a total basis in Q3, what could be your inventory losses, which you have built in numbers?

Niraj Kedia: As I said, in our case, because we make our own resin, it becomes slightly difficult to compute that number, okay? But on a quarterly basis, full quarter, net basis, the prices were down by INR6, okay? And we generally carry a stock of, in pipes and fittings, roughly 20,000, 25,000 tons, so that can give you a ballpark. But in our case, to be very honest, because we use our own resin and we make our resin, this becomes a bit difficult.

Rajesh Ravi: Okay. No, I'm asking in your accounting, if you have taken accounted for any losses? I understand...

Niraj Kedia: No, no. There has not been any inventory write-downs or NRV provisions, if that is your question.

Rajesh Ravi: Okay. Okay, sir. Great. Lastly, all these land sale and all whenever you do, you generate handsome gains, so what are your capex plans? You're also sitting on a good amount of cash. So what about any expansion plans across both the segments?

Niraj Kedia: Yes. See, on the resin side, I think it's very clear that we are happy with our current capacity. And there is no plan to enhance any capacity on the resin side, especially given it is a commodity business. We did it decades ago because that was the need of the hour. But right now, it's a small facility, is doing very well on its own. So there is no plan to have capacity there. We'll continue to do a capex of what is required to maintain the facility, which is around INR100-odd crores every year.

On the pipe and fitting side, if you recall, in March of last year, we set up a new facility for fittings. We also added some capacity in a modular fashion in our pipe plant. But in a couple of years' time, we will probably require some capacity enhancement. When the time comes, we'll let you know. But for the time being, what I can say is, on a guidance basis, INR150-odd crores of capex on an annual basis for the next couple of years you can assume.

Moderator: Thank you. And the next question is from Utkarsh Nopany from BOB Capital. Please go ahead.

Utkarsh Nopany: Sir, first question is on the cash flow part. So if I see over the past 7 quarters, we have generated a positive cash accrual of INR575 crores when we do the addition of net profit plus depreciation -- and I believe that there would have been also a release of working capital due to substantial decline in the PVC resin prices, but our net cash balance has remained at similar level at INR1,550-odd crores over the past 7 quarters. So can you please explain where we have deployed around INR600 crores of cash over the past 7 quarter period? And how we are planning to utilize the surplus cash going forward that we are carrying in the book?

Niraj Kedia: Yes. So you actually answered part of your question. Some of the cash, which actually got released from -- into working capital because PVC prices came down. And if you look at it last year, in Q2, we also incurred loss because of the sharp correction in PVC prices. I mean I don't know how to answer this further because the cash position that you see is net of our short-term credit -- short-term borrowing that we take in terms of buyer credit. During the last 7, 8 quarters, we've also paid out dividends, and there has been capex.

If you have -- if you want to understand this, probably, in detail, I'm happy to have a conversation with you later. But it's very clear in our books the way cash has been there.

Utkarsh Nopany: So you are saying that this INR600 crores of cash, which we have generated mainly through operation has been deployed only in the form of capex and dividend? Because for our working capital requirement, the cash would have got released from the system of the decline in resin prices.

Niraj Kedia: Yes.

Utkarsh Nopany: And how much capex we have incurred in this 9 month of FY'24?

Niraj Kedia: Can I answer this question in a minute?

Utkarsh Nopany: Yes, sure. And how we are planning to utilize the existing surplus cash balance going forward?

Niraj Kedia: See, as I said, this large cash is in that point of time need to be returned to the shareholders in one form or the other, either a dividend or a buyback. Whenever the Board decides, this will probably go back to the shareholders.

Utkarsh Nopany: Yes, we have been hearing on this point again and again, but it's been quite a long time. So what would be that trigger which we are looking at to come to the decision point?

Niraj Kedia: There is no specific trigger per se, to be honest. It will happen.

Utkarsh Nopany: Okay. And do we have any plan to enter into a new product category like infra, pipe and tanks in near future?

Ajit Venkataraman: Utkarsh, let me answer -- take that question. The current agri and non-agri segments both are large enough for us to grow in these segments. And we are not looking at diluting our focus from these 2 segments.

Utkarsh Nopany: Okay. And sir, on the PVC resin side, are we facing any issue on the availability of PVC resin raw materials, that is VCM and EDC? Because if I see, our production has been on a lower side on a consistent basis compared to what we were doing during pre-COVID period?

Ajit Venkataraman: Yes, Utkarsh ...

Niraj Kedia: Yes. This year, we have...

Ajit Venkataraman: Niraj, go ahead.

Niraj Kedia: So this year, we have had issues with some of our suppliers. See, there are 2, 3 things which happened this year. Initially, generally, we take our plant shutdown sometime in November, December. But last year, we kind of extended it, and we did it in April of this year. So we lost around 20, 25 days of production there. Plus in Q1, Q2 as well as Q3, there have been intermittent challenges with some of our suppliers, some force majeure events at their plants. So we have had some issues in procurement of raw material.

But now if you see when I talk to you today, those problems seem to be behind us. And as I said earlier, for Q4, we are pretty confident that we will not have any issues and even beyond that.

Utkarsh Nopany: Okay. And if you can just give some guidance that how has been our CPVC volume growth in the December quarter period and in the 9 months of FY'24?

Niraj Kedia: See, CPVC separately, we don't give, but it has been more or less in line with our non-agri growth.

Utkarsh Nopany: Okay. And I'm just waiting for that capex number for 9 months.

Niraj Kedia: Yes.

Moderator: Thank you. And the next question is from Abhishek Ghosh from DSP. Please go ahead.

Abhishek Ghosh: Just a couple of questions. In terms of the resin part of it, this quarter, the production is much higher than your sales. So, Niraj, were you referring to that data point in terms of normalization as far as the resin production is concerned?

Niraj Kedia: No. So that is different. What I was saying is that, see, even in this quarter, our production was roughly 60,000 tons, which is not -- we could -- if we did not have some supply issues, we would have probably made 75,000 tons. So what I was trying to say that in Q4, the way we sit today, we don't see a challenge in producing 75,000 tons of resin.

Abhishek Ghosh: Got that. So the INR7 of broad EBIT per kg that you have done, that also has an element of negative operating leverage to that extent for the division?

Niraj Kedia: Yes. Yes. Yes, you're right.

Abhishek Ghosh: Okay. Got that. And just in terms of the market competitiveness, at a point in time when you're not seeing pickup in agri, do you see increase in competitive intensity by market leaders in terms of pricing and aggression? Any change in the competitive landscape that you're seeing in the marketplace?

Ajit Venkataraman: Can you repeat that question, please, sorry?

Abhishek Ghosh: Yes. Ajit, what I was trying to understand is, at a point in time when there has been delay in pickup in the agri demand, do you see a change in the competitive landscape of the PVC pipe market in terms of market leaders getting aggressive as far as pricing is concerned? Any kind of change in the landscape that you see at the competitive side?

Ajit Venkataraman: See, there is increased competition, and there is no question about that. And when there is increased competition, there is going to be pricing pressures, especially when market is not opening up as much as we had expected. So this is a fairly routine market response. We don't see anything unusual. Everybody had expected that the agri demand will pick up -- start picking up in Q3.

And we also expected that it will not be as robust as what we had seen in Q3 of FY'23 where we ourselves saw a record-breaking quarter, and we didn't expect it to be as big as that, but should come close, but we did see the market being a little bit lukewarm, and it has not opened up yet. And therefore, yes, when the market doesn't open up as quickly as it should, there is going to be pricing pressures. So we have -- which is quite normal, and that's what we are seeing at this point of time.

Abhishek Ghosh: But in your assessment, given the feedback that you might be having from your marketing and the distributor interaction, is PVC price movement, the sole cause of delay in pickup? Or are there any other issues in terms of affordability? Your last year has been very good. Any other dynamics also which is playing out for the agri demand pickup?

Ajit Venkataraman: See, last year, we did have a pent-up demand playing out, okay? And therefore, we saw the type of volumes, which we saw last year. This quarter, so far, last Q3 FY'24. And even now, the PVC prices have been hovering around the bottom, that is $750 to $770 per metric ton. So therefore, we are still seeing the market on a wait and watch, but our expectation is that the market at this PVC prices are not going to fall any further than this.

Niraj Kedia: Just to add, agri demand, as you -- we always say, you only know how season is after the season is over. What has happened during September, there was a large anticipation in the market that the PVC prices will go down, which they eventually did in October. And that led to some pickup in the volumes. In November, the weather spoilsport which happened was the flooding and excessive rains in large parts of the country. So that also had a negative impact on this quarter's volume.

Moderator: Thank you. The next question is from the line of Manish Bhadane from Ashika Institutional Equities. Please go ahead.

Manish Bhadane: Sir, if I look at the PVC prices and PVC/EDC delta prices, so they are in the downward trend. So what are the factors that are impacting on the PVC prices and PVC/EDC delta?

Niraj Kedia: So see, I see something very unique to our industry, I would say. PVC prices and EDC prices, they are not linked to each other. Generally, if you look at the long-term trend, they seem -- the EDC prices tend to lag behind PVC. But this lag could be anything. What impacts PVC prices in India especially is, see, India is import dependent on PVC.

So PVC domestically is priced on import price parity. So anything which happens around the world, it can impact PVC price in India. Let's take some examples. See, last year when Chinese market was down, PVC was being dumped in the country.

So that led to reduction in PVC prices, whereas the demand was good. This year also, there have been -- so let's see now what is happening on the -- in the Gulf side. There are supply chain issues which we hear about. So these kind of things also effect the sentiments around PVC pricing and the real pricing in the country. When it comes to EDC, EDC is -- works on different parameters. The more chlorine is generated, EDC prices will go down. So they're not directly correlated. They do follow a lag, but they more or less run independently.

Manish Bhadane: Okay, sir. And my next question is, from which countries you are importing by EDC?

Niraj Kedia: Generally, we get it from the Middle East.

Moderator: Thank you. And the next question is from the line of Umar Farooq from CRISIL. Please go ahead.

Umar Farooq: Looking at the question regarding the PVC resin imports actually. From -- for the past 1.5 years, if you see, PVC resin have been imported into India very extensively from China, if you see dumping. And very simply...

Niraj Kedia: Can you speak -- can you please speak up a bit? Unable to hear...

Umar Farooq: Am I audible now?

Niraj Kedia: Yes, yes.

Umar Farooq: Yes. So the question is regarding the PVC imports into India. So for the past 1.5 years or 2, we see PVC resin imports have been on a rising trend, especially from the China dumping the PVC. And many local producers and domestic producers have also complained about that -- regarding the dumping.

So how do you see going forward, if we see the data for the past 8 months of the fiscal '24, the imports from China are already at 80% of fiscal '23. So how does this impact going forward to the domestic PVC market? Can you give any clarity on that?

Niraj Kedia: See, if you look at the numbers...

Ajit Venkataraman: Niraj, go ahead.

Niraj Kedia: Yes. So see, last year, on a financial year basis, India consumed 3.8 million tons of PVC, of which the domestic producers made 1.6 million, 1.7 million tons. So more than 50% of the PVC was imported into the country. And that is a trend which we expect to continue even in the future. So import of PVC is not going to stop. Whether it is dumped from China or other places, it all depends on how the economy of those countries are doing.

For example, if Chinese economy kind of starts -- say tomorrow, hypothetically, starts to boom up and their domestic construction industry picks up, they probably will be not selling as much to India as they're selling now. So this has to be looked at it from a global perspective. And these dynamics keep changing. So it is difficult to say what will happen tomorrow. Ajit, you were saying...

Ajit Venkataraman: No, no. It's in line to what I was about to say.

Moderator: Thank you. And the next question is from the line of Aasim from DAM Capital Advisors. Please go ahead.

Aasim: So first question is on the pipes business. Sir, I presume for your non-agri segment, Finolex would need to be aggressive on the ground in terms of channel incentivization and your E&P. I just wanted to know that assuming normal industry, I mean, agri volumes are normal. Is there a difference between ROCE profile for your agri and non-agri pipe business?

Niraj Kedia: No, ROCE profile is similar. See, there are 2 -- the businesses are very different when it comes to different business dynamics. In agri, the number of SKUs is lesser, so your capex involved is lesser. There is inherent requirement for credit is not there because funds are arranged by the customers, whereas in -- and then the profitability is lower.

On the non-agri side, while the profitability is higher, the number of SKUs is more, so your capex required there is more, plus this is requirement to give credit to the market, the stock has to remain in the shelves of the retailers. So the whole working capital cycle there is longer. But on an ROCE basis, they are more or less similar.

Aasim: So the takeaway basically is if you aggressively grow our non-agri business or rather if it's growing faster, it will not be ROCE dilutive? Got it.

Niraj Kedia: No, not at all. Not at all.

Aasim: Yes. And the second question is on PVC resin. I mean just on a volume expectation for this fiscal, I think you had -- last quarter, you had said that you would be -- you would attempt to do 200,000 to 220,000 metric ton volume sales given the 9-month run rate and with PVC prices being range bound but on the lower side, do you still expect to reach that number?

Niraj Kedia: Yes, definitely. So between 200,000 to 220,000 tons, we'll be able to achieve. And this when I say, I'm talking about both international sales. Yes. There was 1 question on the capex. So the capex that we have done in the 9 months is roughly INR85 crores.

Moderator: Thank you. And the next question is from the line of Amit Srivastava from B&K Securities. Please go ahead.

Amit Srivastava: Sir, a couple of questions. One is in terms of the PVC resin profitability if we look at, it's a INR7 kg around. So we have seen that from the last quarter, it has improved, whereas the PVC/EDC -- as well as the VCM is also lower than the last quarter, then you have highlighted about operating delays also. So just wanted to understand that what has led to this improved profitability?

Niraj Kedia: Sorry, can you please repeat your question? I couldn't get that.

Amit Srivastava: Yes, sir, quarter-on-quarter, I was looking at EBIT per KG for the PVC resin, which is -- has gone up from INR5.4 to INR7. So our spread for the PVC/EDC as well as the VCM is lower than the last quarter. So what has led to this improvement in profitability?

Niraj Kedia: So if you see last quarter, see, in May of the year, generally around that time, our jetty gets nonoperational because during monsoon, we can't operate that jetty. So we stock up our stock of VCM and EDC before the jetty closes. Now this material which had come before the closure of the jetty was a high-cost inventory, which we used subsequently.

And that is why you -- why we saw the performance of the quarterly basis, Q1, Q2, Q3. So Q1, there was a heavy high-cost inventory that we used. In Q2, it reduced. And now this quarter, we have not used much of old inventory. It's a fresh stock that is being used, and that is why you see the improvement.

Amit Srivastava: So can we expect if that continues at the same level we can be in a similar kind of profitability in the coming quarters?

Niraj Kedia: Yes. Yes, we can.

Amit Srivastava: Okay. Second, in terms of the profitability of Pipes and Fittings also, we have declined on a quarter-on-quarter basis. So is it primarily because of the product mix that has led to an inventory loss or it has the impact of a decline in the prices also?

Niraj Kedia: See, so inventory loss and price decline are more the same thing. So you're absolutely right, this is because of the change in PVC prices and the change in product mix.

Amit Srivastava: Okay. So in terms of our growth plan, basically, we are stronger in our West and South market. But still we are not so focused on our North and East market. So basically, in the future, what is the plan of action basically to cater to this market because these are the large markets, which is growing and a lot of peers seem to be moving towards that market? So is there any plan of action for that market? Are we already looking at that market? Or still we are focusing on our core market?

Ajit Venkataraman: So Amit, let me take that question. Traditionally, we have been very strong in West and South, and we have a renewed focus on the North, okay? So it is North, West and South are our strong markets where we -- wherever we are strong, we want to strengthen it. And wherever -- in North, we are aggressively going into more new markets. It is East where we have been traditionally weak, and we are making efforts to strengthen that as well. So it is -- these markets -- I think all these markets are going to be important for us going forward to grow.

Amit Srivastava: Yes. So just to follow up that, basically, sir, we'll service from the same plants or we are looking at plants closer to the market in the North or any kind of -- because we have a future plan to grow anyway? So how is -- yes, so what is the...

Ajit Venkataraman: So at the moment, we are supplying all the pipes and fittings from the 4 plants which we have got, right? And going into the future, we are evaluating where to set up the next plant because in the next couple of years, we will need growth and therefore, where the next plant needs to be set up is something which is under evaluation.

Amit Srivastava: And if we are supplying from these plants, we are still competitive with the plants which are already into that market, in northern market primarily. East, we are still not there, so just to understand the northern market dynamics?

Ajit Venkataraman: So currently, we are supplying it from the 3 plants, which -- pipes, we are supplying it from 3 plants, and the fittings from almost all the plants of course is located in Pune. And so there are a couple of strategies which you can look at, which is one is distributed strategy, one is concentrated.

So we have followed the concentrated strategy given the good nature of infrastructure, which we have got for the availability of parts, the pipes and fittings to rest of the country can be reached within 2 to 3 days for the most. And therefore, we have, at this point of time, looked at it from a concentrated perspective. In future, it may be different, but that is under evaluation.

Moderator: Thank you. And the next question is from the line of Sarbhav Mittal, an individual investor. Please go ahead.

Sarbhav Mittal: Sir, historically, company has been generating good return on capital invested in the business better than the competitors. So what do you think are the competitive advantages present with the company?

Ajit Venkataraman: So Sarbhav, let me answer your question. See, this Finolex is a company which has been existing in -- for about 40 years. And we have been pioneers in the pipes and fittings industry and the quality of our products is our biggest differentiator. There is no compromise in the quality of products which we produce. And therefore, if you actually see there will be farms across the country, where Finolex pipes have been used for more than 30 years and still working very well.

And this is the reputation which we carry forward as well. And to also let you know that most of the growth which is coming in, of course, the urban sectors are growing, but the new growth is coming from the Tier 2, Tier 3, Tier 4 cities. And this is where we have a very good stronghold in terms of the agri segment. And that is also translating into the non-agri segment as well.

And therefore, our ability to serve the -- meet the customer requirements and provide really quality products with no compromise on the material -- raw material, which is used. The PVC, which goes into our pipes are probably -- 80% of it is coming from our plant in Ratnagiri. And this is topnotch quality wherever it is coming from rest of the world and that translates directly into the products we produce.

Sarbhav Mittal: Okay. Sir, does that mean backward integration, that is manufacturing our own PVC resin is providing some advantages? And is that...

Ajit Venkataraman: Definitely. See, the quality of the resin which we produce is probably the best in the world.

Sarbhav Mittal: Okay. And does it provide some kind of advantages in terms of cost?

Ajit Venkataraman: See, again, as Niraj has explained to you, we are not able to take full advantage of it because we do have a constraint.

Niraj Kedia: Ajit, I think this question is different. See, raising is at market rates. So there are no cost advantage as such to the pipe division. To the company overall, yes, because there is value addition in resin and there is further value addition in pipes and fittings -- in pipes. But if you look at them on a segmental basis, pipe segment does not have any added advantage of cost because we are procuring from -- our own other segment.

Sarbhav Mittal: Okay. And my second question would be, please correct me if I am wrong. In the past, the company has been targeting the customer segment and geographies which are largely avoided by other large organized players, but now that the company is targeting the plumbing segment in the urban areas where the competition is very high. So how are we going into that? What are the strategies that we would apply?

Ajit Venkataraman: So yes, definitely, we are getting into the urban segments and 1 brand, brand visibility because entering into a non-agri segment is a completely different ball game. It is much more of a push segment where the competition is quite high. And we have been a little bit slow in getting into the segment, but we have got very good traction in the last 5 years.

Our growth has been outperforming the market. One of the key reasons, one is making sure that we have the complete product portfolio available basket of products, which we have today. Second is our distribution. The distribution is something which is a key differentiator.

Again, if you want to talk about differentiation, our distributors who have been with us for over 25, 30 years are our strongholds. They have very good connects with the market. and have been able to represent the brand very well. So that is the -- that is another key differentiator and enabler for us to penetrate the non-agri segment.

And yes, when we are entering the segment, there will be price competition, and we will have to be price competitive as well to make sure that the market understands that we produce quality products in the non-agri segment as well. So the brand spend, which is necessary in terms of presence, in terms of -- initially, we started with a mass-market carpet bombing. Now we have gone into a very specific targeted segmented marketing, connecting with our market with people who are brand ambassadors and who represent our brand, brand enablers, such as the plumbers, the MEP consultants, the builders, etcetera. So we have very targeted market campaigns towards that.

Niraj Kedia: Just to add, the level of interaction that is required with the plumbers, influencers, all the plumbing and sanitation business, there has been a significant uptick from our side. Just to take an example, since we launched our plumbers app, which is again trying to create a long-term connect with the plumber community. So that eventually, we are expecting it to become a very strong and a key player in the overall strategy with the influencers.

Ajit Venkataraman: Yes. It will create the stickiness that is needed with the influencers. Yes.

Sarbhav Mittal: Okay. And the last question would be, what are your goals for the next 5 to 10 years? And what are the metrics that would use -- what are the metrics that you would use to measure your performance?

Ajit Venkataraman: See, our aim is to double the volumes. I'm not talking in terms of top line, double our volumes in the next 3 to 4 years, yes, and improve the product mix. Currently, as Niraj has pointed out during the call, we are anywhere between 65-35 or a 70-30 split between agri and non-agri, we would like this to move to a 50-50 split.

Moderator: Thank you. And the next question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Sir, in one of the earlier con calls, we had mentioned that for FY'24 in Pipes & Fittings segment, we were looking for a INR10 to INR12 EBIT per low performance. So at this juncture, sir, what do we think what would be the achievable figure? Would we be able to achieve INR10?

Niraj Kedia: Yes, we should be able to achieve.

Miraj: Understood. Okay. And so for FY'25, do we have any figure? Or are we -- will we be evaluating it later on once we cross FY'24?

Niraj Kedia: See, gradually as our product mix improves, our profitability on the Pipes & Fittings segment should improve. If you recall, 4, 5 years ago, our EBIT used to be in the range of INR6 to INR8 and our agri, non-agri mix was more like 80-20. Now this has become 70-30 or 65-35 and you see this improvement in EBIT. Gradually, as this -- the faster this mix improves, the faster our EBIT for the segment will improve.

Moderator: Thank you. And the next question is from the line of Raaj from Arjav Partners. Please go ahead.

Raaj: I wanted to have the outlook for FY'25.

Ajit Venkataraman: Outlook for FY'25. It's -- at this point of time, very difficult. We can only base it on overall market trends. Again, if -- like in the past, we expect that the construction segment to grow anywhere upwards of 15% and therefore, our non-agri segment is likely to see anywhere between 15% and 20% growth.

In the agri segment, it is all going to be dependent upon PVC prices and the stability in PVC prices, and therefore, very difficult to predict at this point of time, but we are looking at any single digit growth in agri segment as well.

Moderator: Thank you. And the next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Sir, on the volumes again. So for the full year, you had said 15% to 20% overall, but then things are looking slow in agri segment. What are your expectations for the next year by '25 in terms of volume? Do you stick to the same number or something else?

Ajit Venkataraman: The expectation is growth between 10% and 15%, yes?

Rahil Shah: Overall volume?

Ajit Venkataraman: Yes, overall volume.

Rahil Shah: And the margins for the last 3 quarters, they've been in the range of 12%, 13%, any uptick expected there? You've also done much higher in the past, but is it too farfetched for now? Or this is the number we can look at?

Ajit Venkataraman: See, in the recent past, the very high margins which you saw in between FY'20 and FY'21 were basically on the back of abnormal PVC prices. We don't expect those Blackstone events to occur again. The prices are going to be much more range bound in between $750 and $850 per metric ton. So you cannot see or you're unlikely to see paranormal profits like that. It is going to be range bound.

As Niraj mentioned, as and as our product mix improves more towards non-agri segment, you're going to see improvement in the rupees per kg profit margins.

Rahil Shah: So when you say these prices are going to be range bound, so what's the timeline? Are you talking about the next quarter or even a good part of FY'25?

Ajit Venkataraman: See, it is already back to about $750 to $800 per metric ton. So we are already in a more stable situation. But again, with the developments happening in the Middle East, it's a wait-and-watch approach at this point of time.

Rahil Shah: Okay. So as of now, this margin band is something we can continue with, with slight improvement like you mentioned.

Moderator: Thank you. And this is the last question is from Tushar Vaidya, an individual investor.

Tushar Vaidya: You mentioned earlier that you see that the PVC/EDC spread for Q3 was good because you were using new materials, which was at a lower cost. How do you see -- what is the situation for Q4 and Q1 FY'25? Will the same low-cost material trend continue?

Niraj Kedia: Sir, to be honest, it is very difficult predict. It's like predicting what will be crude prices tomorrow. So what we hope is that we should be range bound, but it is very difficult to put a number or even give a direction because EDC prices, VCM prices, they change on a monthly basis. And PVC prices change even on a weekly basis. And they both change because of reasons independent to each other. So it will be difficult to give any numbers for Q4 and Q1 of next year on EDC pricing, PVC pricing and VCM pricing.

Tushar Vaidya: Okay. Well noted. Well noted. Two quick questions. Number one, from the power plant that we have, can we produce any extra power and sell in to the open market to improve our profitability? And second question, any likelihood that the anti-dumping policy of the government is going to continue?

Niraj Kedia: See, there is no anti-dumping duty as of now on PVC. What the government did was they bought a quota for imports from certain countries, including China. But there is no duty on PVC import. There's no anti-dumping duty, sorry. So that is the answer to your second question.

On first question, see, we have -- I don't think we can sell power in the open market. First of all, it does not become economical because ours is a thermal power plant, and we require specifically -- this is more or less, it's -- the primary requirement of our power plant here is to generate steam. So a large part of the power that -- the coal -- the usage of this power is to generate steam. And that is where we use our CPP. We can't create more power and sell it in the open market.

Moderator: And this was the last question. I would now like to hand the conference over to the management for closing comments.

Ajit Venkataraman: Thank you all for attending today's call. If you have any further questions, please feel free to get in touch with any of us. Have a wonderful day. Thank you.

Moderator: Thank you. On the behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.