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FINOLEX
PIPES & FITTINGS

1st August, 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 Investors and Analyst call (Q1 FY2024-25)**

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

Dear Sir / Madam,

This is further to our intimation dated 20th July 2024 and in terms of the subject referred regulation, we hereby submit transcript of earnings call held on Monday, 29th July 2024 for the quarter ended 30th June 2024.

The same has also been uploaded on website of the Company under Investor's Section.

Thanking you,

Yours sincerely,

For **Finolex Industries Limited**

DAKSHINAMURTHY VISHWANATHAN IYER
Digitally signed by DAKSHINAMURTHY VISHWANATHAN IYER
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M. No.: A13004

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MANAGEMENT SYSTEM CERTIFICATION
ISO 9001 :2015
ISO 14001 :2015
ISO 45001 :2018
Ratnagiri Plant

QUALITY SYSTEM CERTIFICATION
ISO 9001 :2015
Pipes Division

# “Finolex Industries Limited

# Q1 FY '25 Post Earnings Conference Call”

# July 29, 2024

**MANAGEMENT:** **MR. AJIT VENKATARAMAN – MANAGING DIRECTOR – FINOLEX INDUSTRIES LIMITED**
**MR. CHANDAN VERMA – DEPUTY CHIEF FINANCIAL OFFICER – FINOLEX INDUSTRIES LIMITED**

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

**Moderator:** Ladies and gentlemen, good day, and welcome to Finolex Industries Q1 FY '25 Post Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone 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:** Good morning, ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Q1 FY '25 Post-Results Con Call of Finolex Industries. From the management side, we have Mr. Ajit Venkataraman, MD; and Mr. Chandan Verma, Deputy CFO.

Now I hand over the call to Ajit for his opening remarks, post which the floor will be open for Q&A. Over to you, Ajit.

**Ajit Venkataraman:** All right. Thanks, Arun. Good morning, ladies and gentlemen. Welcome to the Investor Conference Call, the Q1 FY '25 Earnings Release. We thank you all for continued support and interest in Finolex Industries Limited. The company closed the quarter with a good improvement in operating performance despite almost flattish volume in Pipes & Fittings segment. This quarter, the company has reported an exceptional gain of INR 417 crores coming from sale of leasehold land of 25.27 acres.

Let me now take you through some of the performance indicators. Q1 FY '25 highlights.

Total income from operations was INR 1,140 crores for Q1 FY '25, down 2.67% against INR 1,179.17 crores in Q1 FY '24. EBITDA increased by 35.53% year-on-year to INR 206.65 crores in Q1 FY '25, compared to INR 152.47 crores in Q1 FY '24. EBITDA margin during this quarter stood at 18.12% compared to 12.93% in corresponding previous quarter of Q1 FY '24. The company reported a PAT of INR 505.20 crores in Q1 FY '25. This includes exceptional gain from the sale of land, against INR 110.88 crores in Q1 FY '24.

Now getting into the segmental performances. Pipe & Fittings, revenue decreased by 2.67% year-on-year to INR 1,123 crores in Q1 FY '25 from INR 1,154 crores in Q1 FY '24. Volume in the segment decreased marginally by 1.69% year-on-year to 90,620 metric tons in Q1 FY '25 against 92,181 metric tons in corresponding last quarter.

The EBIT in the segment increased by 6% to INR 134.40 crores in Q1 FY '25 compared to INR 126.44 crores in Q1 FY '24. Moving to PVC Resin segment. Revenue in the segment stood at INR 548.23 crores in Q1 FY '25 compared to INR 359.41 crores in Q1 FY '24. Volume in the segment increased significantly by 51.11% to 69,625 metric tons in Q1 FY '25 against 46,074 metric tons in Q1 FY '24. EBIT in Resin segment stood at INR 69.11 crores in Q1 FY '25 compared to INR 3.12 crores in corresponding previous year's quarters.

The company continued to have a strong balance sheet with a net cash surplus of roughly INR 2,400 crores as of 30th June 2024 compared to INR 1,650 crores in the corresponding previous year's quarter.

Let me now leave the floor open for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Udit Gajiwala from Yes Securities.

**Udit Gajiwala:** Sir, firstly, in terms of pipe volume growth, I mean, we have seen peers reporting around 20% growth. I mean, what went wrong for us or what were the segments that dragged the growth?

**Ajit Venkataraman:** Thank you Udit for the question. We had a good growth in Pipes and Plumbing & Sanitation segment, but we were faced with certain supply constraints in the first 2 months of the quarter, which resulted in the lower volumes. But at the same time, our profitability per kg for the Pipes & Fittings segment has improved significantly.

**Udit Gajiwala:** Sir, what were the supply constraints? Was it -- because we have not heard it be industry-wide as such a phenomenon. Given that it was a peak Agri season, I mean -- so could you please elaborate? I mean, what were the...

**Ajit Venkataraman:** Our plants were running at peak capacity during that period.

**Udit Gajiwala:** Okay. And what was the quantum of inventory gains for the quarter?

**Ajit Venkataraman:** Yes, just one moment. There was no significant inventory gain for the quarter.

**Udit Gajiwala:** All right. And sir, in Resin business as well, the EBIT margin, given where the delta has improved, are we seeing some spillover that would happen in the following quarter in terms of inventory gains or improved profitability? Or lower prices could again dent the margin here?

**Ajit Venkataraman:** See, we have seen a certain degree of volatility in the past few months in the Resin segment. We have seen the prices rise and drop as well for the last few weeks. And therefore, there is not going to be much of an inventory gain or loss in the future as well.

**Udit Gajiwala:** Okay, sir. And lastly, what kind of pipe volume growth do you expect for FY '25?

**Ajit Venkataraman:** See, we maintain a 10% to 15% volume growth, which we had forecast in the beginning of the year.

**Udit Gajiwala:** This was on CAGR basis, right, for next 2, 3 years, if I'm not mistaken?

**Ajit Venkataraman:** No, no, this year as well. CAGR also, we expect a 10% to 15% growth. Yes.

**Moderator:** The next is from the line of Sonali from Jefferies.

**Sonali:** Sir, my first question is again a follow-up in terms of volume growth. Could you divide the volume growth between Agri and Non-agri for this quarter, please?

**Ajit Venkataraman:** So we normally don't give you the split of Agri and Non-agri. Typically, we don't release that. But we have seen much significant growth in the plumbing and sanitation Non-agri segment compared to the Agri.

**Sonali:** Understand. Sir, I just wanted probably the growth rates, because I just wanted to understand the minus 2% price decline. How much did Agri de-grow actually because of supply?

**Ajit Venkataraman:** What I would say is that we don't give you the split up between the Agri and Non-agri growth. But in the Plumbing & Sanitation segment, we have seen growth in line with the industry.

**Sonali:** Understand. Sir, my second question is again regarding the supply constraint that you mentioned, your plants were operating at full capacities. What was the utilization that we were operating at, sir? And going forward, if there is such a strong summer again, what comfort do we have that we will not be hindered by such supply constraint again? Because the demand was very strong.

**Ajit Venkataraman:** Correct. Sonali, we have been operating anywhere between 80% and 85% in our plants. We always do planning in 2 ways. One is adding incremental capacities in our existing facilities, which we do from time to time. But we are also planning out the long-term growth plans. Based on the long-term growth plans, we are looking at capacity expansion as well. So these are on the drawing board at the moment, and we will announce it as soon as we are ready to do that.

**Sonali:** So sir, as of now, our capex guidance, have we increased that? Or it's the same that we guided for last quarter, for FY '25?

**Ajit Venkataraman:** We normally have a capex guidance of almost INR 150 crores for the year. And as soon as we have the plan for this expansion ready, we will be announcing it.

**Sonali:** Understand. Sir, last question from my side. Sorry if I missed, I joined the call a little bit late. What's the PVC, EDC, VCM price for this quarter versus last, that's year-on-year, and also the spread?

**Ajit Venkataraman:** So if you look at the PVC price, in Q1 FY '24, the average price was about $ 805, whereas in Q1 FY '25, it was $ 855, the average. And if you look at the EDC, it was $ 337 in Q1 of FY '24 versus $ 322 average of Q1 FY '25. And VCM was almost the same, $ 672 and $ 671 in Q1 FY '24 and FY '25.

If you look at the delta, that is where the difference comes in. For PVC/EDC delta, in Q1 FY '24, we had $ 468 versus in Q1 FY '25, it was $ 533. In PVC/VCM delta, Q1 FY '24, it was $ 133, whereas in Q1 FY '25, it was $184. If you were to look at the prices as of now, probably 25th of July 2024, the PVC prices had come down to $ 820. The PVC/EDC delta was $ 480 and the PVC/VCM delta had come down to $ 80.

**Sonali:** $80, 8-0?

**Ajit Venkataraman:** That's right.

**Sonali:** Okay. Sir, just one last question, sorry to squeeze this in. On the margins, there is a very strong lead to margins that we have got. But you mentioned that we do not have any significant inventory gains. So what are the drivers that you would attribute to the margin growth, especially because your volume in the Agri was also impacted. So I don't consider a big operating leverage to that. So what are the key drivers for such a strong margin gain?

**Ajit Venkataraman:** So one is definitely operational efficiency in our plants. That is one. And second also is that since there was a volume constraint, we had controlled our discounts in the market.

**Sonali:** Understood. And you think that you will control it going forward as well? Or we will revert back to status quo?

**Ajit Venkataraman:** See, Q2 is typically the weak quarter of the year. And therefore, it should come back to normal in this quarter.

**Moderator:** The next question is from the line of Pujan Shah from Molecule Ventures.

**Pujan Shah:** Sir, on industry traction, we have been seeing growth of PVC-O pipes, and also a few companies have been aggressively growing. So what's our call on that part and how we have been planning to grow? Or like are we focusing on that part as well?

**Ajit Venkataraman:** So we are currently focusing on UPVC and CPVC only at this point of time. The new products which are coming into the market, it's under observation. But at this point of time, we are waiting and watching to see how the products perform in the market, because these products have been in the market for almost 10 years now.

**Pujan Shah:** Okay. And what is the difference? Like why few companies have been aggressively growing? Is it cost advantage or it's about the structural ease of installation compared to the replacement of any out of the land pipes. So what's your take on OPVC?

**Ajit Venkataraman:** OPVC pipes are definitely lighter in weight, because they are much thinner. But it has taken a long time for it to take traction in the market. It's almost 10 years now. And still that substance is something which is work in progress.

**Moderator:** The next question is from the line of Sneha Talreja from Nuvama.

**Sneha Talreja:** Couple of questions from my side. While you, of course, mentioned the current pricing, both on the PVC, EDC front and VCM front, could we actually understand the PVC scenario from your end that why did the prices actually increase so much and why there's a sudden fall? And what would be your outlook here? Or will we continue to see the volatility during the entire year?

**Ajit Venkataraman:** See, it's very difficult to gaze in the crystal ball and give you a prediction. But there are several factors which have been influencing the pricing of PVC. They are mainly driven by housing market in both China and U.S., which have shown a sign of weakness. And therefore, we have seen a lot of material coming into India and resulting in price drops. But at the same time, there are also factors such as BIS norms being implemented, which are going to be influencing the pricing of PVC in the market.

So it is much more of a wait and watch as to whether the BIS norms come into effect immediately, or it is likely to see a further postponement as we have seen sometime in the past. And therefore, many of these factors are going to influence how the PVC price movement would happen. But at the moment, it is much more of material availability in the market, which is driving the price down.

**Sneha Talreja:** And the logistics challenges that the PVC was seeing, has that all gone away?

**Ajit Venkataraman:** Correct. We had that aspect of it when we saw the price movement up. But I think that has eased right now, and therefore, availability has improved and thereby, the reduction in price, which you have seen in the past couple of weeks.

**Sneha Talreja:** Understood. And secondly, any finalization, or any -- are we getting closer towards anti-dumping duty or actually duty to be levied on PVC?

**Ajit Venkataraman:** So it has already been implemented in CPVC, but UPVC is something which I think there was an indication of August, September time frame, but it depends upon whether it will be implemented or not.

**Sneha Talreja:** Sure. Understood. And lastly, on your capex plan, any finalization there? When can we see some finalization happening. Any timeline to it?

**Ajit Venkataraman:** So in the next quarter, we should be in a position to come up with a firm plan.

**Moderator:** The next question is from the line of Praveen Sahay from PL Capital.

**Praveen Sahay:** The first question is related to the volume of Pipes & Fittings. So as you had mentioned that the capacity constraint has led to some lower volume. But if I look at your production versus sales, usually, in the first quarter, it's been in the range of 100%. But this time, we can see that around 96% of your production converted to the sales. So is there something else as well you want to highlight in the lower volume growth?

**Ajit Venkataraman:** No, no, the plants have been operating at peak capacity, which we normally do in Q4 and Q1. There is nothing abnormal in that.

**Praveen Sahay:** Okay. Because see, the production which you had done versus sales, which seems lower. So that's why I had asked this question. Okay. So is there any outsourced capacity right now, do you have?

**Ajit Venkataraman:** So we do have certain degree of outsourced capacity, but that is very small compared to the in-house capacity, especially for Pipes.

**Praveen Sahay:** Okay. And in the Non-agri segment, where we had grown better in this quarter, and also in the earlier calls, you had given guidance of a 20% volume growth in the Non-agri segment for this year. So are you on track for achieving 20% of growth in the Non-agri segment for full year?

**Ajit Venkataraman:** Yes, the focus has been on that segment, and we are still slated to grow aggressively in that segment.

**Praveen Sahay:** Okay. And lastly, on the raw material side, see, last quarter also if I look at, in May month when we had a call, you had given a spread of $ 480. And ultimately, this quarter end, return to $ 533. And again, it's a go back in July to $ 480. So is there like only the demand-supply, which is impacting, or something else also to read into it?

**Ajit Venkataraman:** So typically, the EDC and VCM prices come in with a lag. And therefore, you will see this kind of a movement. Other than that, I think, see, what we have also done is, especially with EDC, we use to stock up for the entire summer before the rainy season. Now we have found alternative solutions for that. And therefore, we don't have to store EDC in large quantities, and therefore, insulate ourselves from huge price fluctuations.

**Praveen Sahay:** Okay. Okay. Great, sir. And just to confirm, the capacity for Pipes & Fittings, 4,38,000 right now you have?

**Ajit Venkataraman:** Yes, it's approximately 4,70,000 metric tons, Pipes & Fittings together.

**Moderator:** The next question is from the line of Utkarsh Nopany from BOB Caps.

**Utkarsh Nopany:** Sir, I need a clarification. Your in-house Pipes & Fittings capacity is 4,70,000. Is it correct?

**Ajit Venkataraman:** 4,70,000. That's right.

**Utkarsh Nopany:** Okay. So sir, if we see, like our Pipes capacity on a Y-o-Y basis has gone up by around close to 17%. And even on a 5-year basis, it has gone up substantially by more than 25% or 30-odd percent. But if we look at our Pipes sales volume, it has gone down on both Y-o-Y basis and 5-year basis. So what is the actual reason that why we are underperforming in the industry on a consistent basis, sir?

**Ajit Venkataraman:** So we are in a transition from our focus on Agri to Non-agri, and this is a journey which we have undertaken about 3 to 4 years back. And this transition will see certain ups and downs. And our focus is shifting towards Non-agri segment, which is less cyclical. And therefore, the movement that you see in terms of -- but what our aim is, is to make sure that in the next 3 to 4 years, we have an Agri, Non-agri split by volume of about 50-50. So that is something which we are in transition and you're going to see that.

**Utkarsh Nopany:** Okay. Sir, a connecting question is that like, definitely, we are looking to increase the share of the Non-agri pipes. What we are seeing is that our Pipes segment EBITDA per unit, where it used to be around INR 8 per kg, INR 9 per kg, has gone up to around INR 15 per kg. And there has not been a major improvement, say, compared to the pre-COVID period. And our PVC Resin EBITDA per unit, which earlier used to be around INR15 per kg, has now gone down to around INR 9 per kg, INR 10 per kg. So just wanted to know whether there has been any change in our PVC Resin pricing policy for captive consumption, which is resulting into lower profitability for PVC Resin segment and better profitability for the Pipes segment?

**Ajit Venkataraman:** See, our transfer pricing, which happens from PVC Resin segment to Pipes segment is at market value. So there is no change in that policy. Yes. But what we have seen is that we have a shift taking place in the product mix and more Fittings being sold, which is also resulting in -- if you remember, last March, we had our Fittings capacity increased by almost 25%. So our aim is to try and improve the Non-agri segment, which correspondingly improves the Fittings sales as well, and that results in improved margins.

**Utkarsh Nopany:** Sir, again, I'm coming back to this question. On a Q-on-Q basis, sir, if we see, our EBITDA per unit of Pipes margin has improved. Despite Q1 being an Agri-dominated quarter, there was an element of negative operating leverage played out during the quarter, and the Fittings ratio as a proportion of your total sales volume, which you have mentioned in the presentation, remaining the same. So when the industry is seeing a margin contraction, how come our margin is improving on a Q-on-Q basis?

**Ajit Venkataraman:** See, the more Non-agri segment improves, the contribution of Fittings in the overall mix improves corresponding to that. So for example, in the Agri segment, the Fittings contributes anywhere between 3% and 4% of the volume. Whereas in Non-agri segment, it is anywhere between 15% and 25%. So correspondingly, you will see an improvement in the margins.

**Moderator:** The next question is from the line of Ritesh Shah from Investec.

**Ritesh Shah:** A couple of questions. First, sir, can you detail where do the credit days stand given it had bumped up on March end basis?

**Ajit Venkataraman:** Number of days of credit...

**Chandan Verma:** Credit days for the debtor days is roughly around 60 to 70 days for the Non-agri sector. And Agri sector, we are at 0 credit days.

**Ritesh Shah:** Okay, fine. Sir, my second question was more from a regulatory aspect. We do understand that there is a quality control order which is expected on PVC. Likewise on EDC, EPM and VCM. How are we positioned to tackle this?

**Ajit Venkataraman:** So most of our suppliers already have the certification, BIS certification. So we don't see much of a challenge.

**Ritesh Shah:** Okay. And sir, specifically on PVC, I presume it's expected sometime next month. What do you make of it? Like, will it impact the local availability of PVC given imports could potentially reduce? How do you make up the demand-supply situation then?

**Ajit Venkataraman:** If it is implemented as per the current plan, there are certain countries which don't have the certification, which can result in a supply constraint. But there are a sufficient number of the PVC manufacturers who already have the certification. So we have to wait and watch as to whether it gets implemented or it gets postponed another 6 months.

**Ritesh Shah:** Sure. And sir, you did speak about antidumping duty on PVC. Have the rates been notified over here? I understand the timelines are a question mark, but have the rates been notified here?

**Ajit Venkataraman:** Antidumping has been implemented for CPVC.

**Ritesh Shah:** Correct. Sir, I'm asking for PVC.

**Ajit Venkataraman:** PVC, not yet.

**Ritesh Shah:** Not yet. But sir, any idea on the rates?

**Ajit Venkataraman:** No, no, no.

**Ritesh Shah:** Okay. Fine. Sir, second is on the operational side. You indicated that controlled discounts in the market. That's the words that we used; I think it is because of the supply constraints that we had. Now sir, if I look at the realization that we have given on sales for Pipes & Fittings and for PVC Resin, if I look at the differential, that is, you divide pricing on PVC Pipes & Fittings by the

PVC Resin prices, that ratio is around 1.57%. It has declined versus 1.61% in the prior quarter. And it is again lower than 1.60% in Q1 FY '24. So sir, if the discounts have reduced, what has changed meaningfully? Is it like a significantly higher percentage of CPVC or Non-agri? If you could provide some color over here, it would be really useful sir.

**Ajit Venkataraman:** See, as I mentioned, our Plumbing & Sanitation segment has grown, okay? And also correspondingly, our Fittings has grown. And both these segments are more profitable than the Agri segment. And therefore, you will see improvement. And also, you have seen that the prices of PVC had gone up significantly in this quarter. And the company decides as to how much price to pass on.

**Ritesh Shah:** Right. Sir, the reason to just ask this question is, even if you look at it on a sequential basis, the realization increase for PVC Resin or PVC Pipes & Fittings is INR5 to INR6 only. So when we say that the mix has changed materially for this particular quarter or growth for any particular subsegments, it becomes a bit difficult to actually comprehend itself. So any quantification read on CPVC or Non-agri, I think it will be useful for us to better appreciate our numbers -- or probably I can connect offline.

**Ajit Venkataraman:** We can connect offline, but I'm not able to answer your question at the moment.

**Ritesh Shah:** No worries. And sir, just last question. There's a huge cash sitting on the balance sheet. I think the management has over time indicated that they will come up with some plans, but nothing has happened as yet. Sir, what should we make of it? Any timelines by which we can expect a higher payout or probably a larger capex with respect to expansion?

**Ajit Venkataraman:** See, we definitely need an expansion. And therefore, as I mentioned, it is on the drawing board. And we have to let you guys know as soon as it is ready. But as I've told you before, the Board has to decide. And whatever is not needed for expansion will be given back to the shareholders.

**Moderator:** The next question is from the line of Chirag Lodaya from Valuequest.

**Chirag Lodaya:** Sir, I have just 2 questions. One was on what is the peak volume you can achieve given the current capacity?

**Ajit Venkataraman:** See, our capacity is approximately 30,000 in terms of Pipes per month, and about 3,500 in terms of Fittings.

**Chirag Lodaya:** This is essentially on a monthly basis, right?

**Ajit Venkataraman:** Correct. Correct.

**Chirag Lodaya:** Got it. So then on a quarterly basis, we can achieve 1 lakh plus volume, right? I mean...

**Ajit Venkataraman:** To operate plants at that peak capacity day-on-day for continuous 3 months is a little bit difficult.

**Chirag Lodaya:** Right, right. And what would be the lead time -- whenever Board decides, what would be the lead time to set up a capacity or line?

**Ajit Venkataraman:** So it's anywhere between 18 to 24 months. This is including land, building, equipment.

**Chirag Lodaya:** Right, right. So given this constraint, we have limitations to grow volumes. So how do you plan to...

**Ajit Venkataraman:** See, the thing is, existing plants have got incremental volumes that can be added, which we do on a continuous basis, which we are planning as well.

**Moderator:** The next question is from the line of Vipulkumar Anupchand Shah from Sumangal Investments.

**Vipulkumar Shah:** Sir, our volume for PVC Pipes is 82,000, and Fittings is 90,000. So if I total it, it is 90,000 now, and our annual capacity is 4,80,000. So capacity utilization is around 70% only. In your opening remarks, you said it is 80% to 85%. So what I am missing here, sir?

**Ajit Venkataraman:** Vipul, can you repeat that, what you just said?

**Vipulkumar Shah:** No, I said your total PVC Pipes and Fittings volume is 90,000 this quarter. And our installed capacity is 4,80,000. So if you annualize it, our capacity utilization works out a little over 70%, whereas in your remarks, you said our utilization was 80% to 85%. So what I'm missing here, sir?

**Ajit Venkataraman:** So when you talk about peak capacity, that is your machines are operating at 100%, it's completely going. So you do have maintenance stoppages. You do have change over time, etc, which are not factored in there.

**Vipulkumar Shah:** Okay. So practically, what is the maximum capacity which we can work with annually. So it is not 4,70,000?

**Ajit Venkataraman:** It is lower than that. It will be about -- what we typically say is that we run at about 85% of that number.

**Vipulkumar Shah:** 85% of 4,70,000, right, sir?

**Ajit Venkataraman:** Correct.

**Vipulkumar Shah:** And sir, you said VCM delta has come down to $ 80 as of today. So since we have one line with VCM, so can we expect a reduced profitability in this quarter?

**Ajit Venkataraman:** So typically what we have is that during the rainy season or during quarter 2, we typically don't -- we mainly manufacture with EDC, yes. And yes, you will have some impact because of the VCM delta reducing.

**Vipulkumar Shah:** And lastly, sir, since we are running at almost full capacity, are we planning to increase our Pipes capacity addition, which generally is 30,000 tons...

**Ajit Venkataraman:** We have to.

**Vipulkumar Shah:** So what is the capacity addition plan over the next 1, 2 years?

**Ajit Venkataraman:** See, typically, we don't go for small capacity additions. All our plants are approximately 100,000 to 150,000 metric tons each per annum capacity. We believe that this business thrives on scale. And any where between 100,000 and 150,000 is what we typically plan for additional capacities.

**Vipulkumar Shah:** So lastly, all additional capacity will be greenfield, should I suppose?

**Ajit Venkataraman:** We are evaluating that at this current point of time, Vipul.

**Vipulkumar Shah:** And sir, one small suggestion. Directionally, if you can give some indication about your Agri/Non-agri mix. So many questions are raised around that. It would be really helpful.

**Ajit Venkataraman:** For this quarter, it is 70/30.

**Vipulkumar Shah:** 70/30?

**Ajit Venkataraman:** Yes.

**Moderator:** The next question is from the line of Keshav Lahoti from HDFC Securities.

**Keshav Lahoti:** Sir, just wanted to understand one thing. Like we knew in advance, Pipes demand has been pretty strong. It has been staying strong. Still, we faced capacity constraint. So it was not like demand came all of a sudden and still management is drawing up the plan for capacity expansion. So why is it taking so long?

**Ajit Venkataraman:** See, what we believe is, is to make sure that we put the capacity in the right place, Keshav. Unlike many of our players in the industry, we do not have capacities being put up all across the country. So when we are putting it up, we want to make sure that it is in the right location, and it is in the right logistics location to serve the market, both from the existing customer base as well as where we want to expand. So that is taking a little bit of time. So we want to spend as much as time possible to make sure that we make the right decision before we implement. So it is not a black and white answer. And therefore, it is taking a little bit of time.

**Keshav Lahoti:** Understood. Got it. Like your new capacity possibly might take more 2 years to come in. And already, we have faced capacity constraint in this year. So how do you think about next 2 years? Again, the same issue will go through, or how you want to navigate it? Or do we have scope of debottlenecking to...

**Ajit Venkataraman:** Keshav, what we are looking also is that, in 2 of our plants in the same -- Masar, which is near Baroda, and Ratnagiri, we have sufficient land parcel to do incremental expansion. So we can put up additional capacities in those 2 locations. And therefore, we are already planning for it. So the new capacity which I'm talking about, which is probably 100,000 to 150,000 capacity, is a completely different exercise, but incremental capacity, adding a few lines -- adding extruders, etc, is something which we can do in the existing plants as well. And therefore, coming up with incremental capacity can take place within 6 to 8 months.

**Keshav Lahoti:** Understood. Got it. Just some color on how has been the CPVC volume growth? Whether CPVC volume growth has been possibly fastest among everything this quarter? How should we look at, some color, maybe some range?

**Ajit Venkataraman:** So we typically don't talk about the individual CPVC components in the whole range. But since -- so it is in line with the Non-agri growth, yes.

**Keshav Lahoti:** Understood. Got it. And your Fittings -- outsourcing would be higher in Fittings, right?

**Ajit Venkataraman:** Correct.

**Keshav Lahoti:** Understood. Any range would you like to highlight?

**Ajit Venkataraman:** See, the thing is that, as I mentioned, the Fittings contribution to Non-agri or Plumbing & Sanitation is anywhere between 15% and 25%, and therefore, Fittings aspect of it has also seen growth.

**Keshav Lahoti:** Understood. Got it. One last question from my side, whatever 30,000 and 3,500 per month number you highlighted, that is the actual production possible each month, right?

**Ajit Venkataraman:** Yes, that's the peak production possible each month.

**Keshav Lahoti:** Got it. So 4 lakh is the production you can do annualized from your plant, peak potential?

**Ajit Venkataraman:** Right.

**Moderator:** The next question is from the line of Udit Gajiwala from Yes Securities.

**Udit Gajiwala:** Just one thing on similar lines to capex. So on discussion, are there any plans for any inorganic growth or it will completely be a PVC capex?

**Ajit Venkataraman:** No, no. This is going to be organic growth only. We are not looking at any inorganic growth.

**Udit Gajiwala:** Understood. And sir, if you can throw some more numbers as well on the Resin business? I mean, what kind of volume growth are you seeing over there for FY '25?

**Ajit Venkataraman:** Resin growth, to put things in perspective, we have reached a point where we are not going to have any Resin sales except for a few customers who need a very specific grade of PVC, who we have commitments with. Other than that, almost all our capacity is consumed by Finolex itself.

**Moderator:** The next question is from the line of Rishab Bothra from Anand Rathi.

**Rishab Bothra:** So I wanted to understand the tax rate on the sale of land -- lease land. What's the status on that?

**Chandan Verma:** Yes, Rishab, it is at the long-term capital gain tax rate, 20% plus for the charge and sales.

**Rishab Bothra:** Okay. Secondly, sir, the amount lying in cash and balance is quite significant if you look at last 3 years. I have been hearing on the calls that there are plans of capex. But what's going on the drawing board from the management side, could you explain certain things, because this has been going along for quite a long time. So what are you proposing to the Board and what decision Board will take is something different. But at least we can know where we are heading.

**Ajit Venkataraman:** See, I know that sitting on this magnitude of cash is not the best use of our resources. One definitely is that the expansion plan is going to take up certain portion of it. And beyond that -- see, typically, a 100,000 metric ton capacity plant will cost you anywhere between INR 300 crores and INR 400 crores. Okay.

**Rishab Bothra:** But still that will leave us a lot of cash. What is being said to the board is what I wanted to understand roughly.

**Ajit Venkataraman:** See, the Board has to decide yet. So it is something which is under discussion at the moment. And therefore...

**Rishab Bothra:** Management would have definitely sent 2, 3 proposals, of which one will get decided, right? So could you highlight 1 or 2 of the proposals?

**Ajit Venkataraman:** This is not the right forum for such discussions. The Board will decide...

**Rishab Bothra:** Got it. And thirdly, in capital employed if you see, Resins and Pipes & Fittings, there's a lot of unallocated. So, is this cash component only? Or is there something else also?

**Chandan Verma:** No, Rishab. So unallocated generally is the investment portion, which remains unallocated between the segments. Plus as you rightly said cash and cash equivalents are also lying there.

**Rishab Bothra:** Okay. This is investment in Finolex Cables, I guess?

**Chandan Verma:** No, no. In Finolex Cables, but the cash surplus that we have, which is deployed in the liquid fund and the short-term to long-term investment, that is mainly lying in the unallocable portion.

**Rishab Bothra:** Got it. And lastly, can you let me know, in terms of we have a captive consumption for Resin. Other pipe manufacturers, where do they source from? Is it from domestic market, RIL, or is it oversea basis?

**Ajit Venkataraman:** So in terms of Resin, almost 50% of -- the total consumption of PVC in India is about 4 million, out of which 1.7 million is produced in India. Rest is imported. Import typically happens from U.S. or from China and Far East.

**Rishab Bothra:** Okay. So my understanding, I wanted to suggest, since we have expertise in Resins, why can't we set up a Resin plant and supply to these manufacturers?

**Ajit Venkataraman:** See, the variability of performance of Resin fluctuates quite a bit.

**Rishab Bothra:** That is known for a commodity industry.

**Ajit Venkataraman:** See, we don't want to be exposing ourselves to that degree of variability. Raw material is available in plenty, and we don't want to subject ourselves to that kind of variability.

**Moderator:** The next question is from the line of Varun Jain from Dolat Capital.

**Varun Jain:** Yes. So my question was on channel inventory. So what are the general levels of channel inventory as of now? And in Q1, we saw, in June especially, a lot of PVC price variation. So when the prices were going up, did you see that the channel off-take of inventory was low, and now, since the past, the prices have been coming down? Have the PVC volumes started lifting off again? Any sense on those lines?

**Ajit Venkataraman:** See, typically what happens is when the prices are going up, the channel takes up inventory, because we have got a very efficient pricing model in the market where any price increase or decrease gets passed on almost immediately to the market. So when the prices go up, the channel absorbs a lot more of the inventory. Whereas when the prices are going down, the channel holds back on taking in inventory. So we have seen a rise up and a rise down during the quarter. So it has happened both ways.

**Varun Jain:** But in this quarter, so we had a sense that because the channel thought that the price increases are very transient, they were not accepting them. So when prices went up, instead of channel taking on more inventory, they just held back. That was what we heard from another player. So just wanted to see if you also saw this trend, or no?

**Ajit Venkataraman:** So if you actually see, there are a couple of things which have happened. This quarter, we had rains set in quite early compared to last year. Okay? So when you actually see, June 1 onwards we had rains set in into the country. Whereas the same period last year, it had set in, in July. So as soon as the rain sets in, the Agri demand drops quite significantly. But also, you need to understand that the price movement which happened -- for example, in Q4, the average PVC price was $ 920 -- I'm sorry, Q4 was $ 785, which went up all the way up to $ 855 in Q1. So Q4 FY '24, $ 785 was the average. Q1 FY '25 was $ 855. There was a price up.

And even during the quarter, you can see that the prices have come down. Currently, it is $ 820, and expected to fall a little bit further. So you are going to see a certain degree of volatility both ways. And a lot of this at the channel partners do speculate. So this is something which is quite unavoidable in this market -- in this segment.

**Varun Jain:** And so current channel inventory levels are on the higher side, or they are at normalized levels?

**Ajit Venkataraman:** Normalized levels at this point of time. And this quarter, Q2 is any which way a slow quarter.

**Moderator:** The next question is from the line of Karan Bhatelia from Asian Market Securities.

**Karan Bhatelia:** Sir, I wanted to understand from your side any upgrade in the EBIT per kg for Pipes? Because in the last quarter, we did mention of INR 14 for the medium term, and already we are at INR 15 despite no volume growth. So, your thoughts on this.

**Ajit Venkataraman:** See, with the product mix improving, you will see, but it should be in the current range which we are talking about. Because as we had mentioned during the conversation during the call, it used to be in the INR 7 to INR 8 range, EBIT per kg. Now we are in the INR 14 to INR 15 EBIT per kg. And these will improve as we further improve the product mix. But at this point of time, I would say this will be the range from here.

**Karan Bhatelia:** Right, right. And also, we did mention of capacity expansion in a phased manner, greenfield and brownfield both. So where do we see the SKU expansion in channel partners over the next 2 to 3 years?

**Ajit Venkataraman:** See, we already have, approximately, dealer network of s900 and retail network of almost 30,000. So the reach will continue to increase. We are much more focused on distribution model. And therefore, the dealer network will see a much slower growth, whereas the retail network will see a much faster growth.

**Moderator:** The next question is from the line of Dheeresh K. Pathak from WhiteOak.

**Dheeresh Pathak:** Sir, did you say that Plumbing, you have grown in line with the market?

**Ajit Venkataraman:** Plumbing & Sanitation, yes, we have grown. We are yet to see the results from other players. But yes, we have grown more or less in line with the market.

**Dheeresh Pathak:** And did you also mention that 70:30 is the volume mix, Agri and Non-agri, right?

**Ajit Venkataraman:** For this quarter, yes.

**Dheeresh Pathak:** So then the Agri is de-grown by some low teens? Is that the industry degrowth happening?

**Ajit Venkataraman:** Agri, you did see early set in of monsoons. And therefore, in June, we had seen a significant drop, yes.

**Dheeresh Pathak:** But for the quarter as a whole, based on the numbers you just shared, it would imply that low-teens volume...

**Ajit Venkataraman:** We have degrown a little bit compared to Q1 FY '24.

**Dheeresh Pathak:** But is it in line with the industry, low teens volume degrowth in Agri?

**Ajit Venkataraman:** I'm not 100% sure about that, yes.

**Dheeresh Pathak:** You feel industry has degrown more or less? What is your...

**Ajit Venkataraman:** We have not seen too many results yet. So it will be difficult for me to say in comparison to the industry.

**Dheeresh Pathak:** Okay. Sorry, I might have missed, but any debottlenecking that you're doing in the existing capacities?

**Ajit Venkataraman:** See, we have area constraint in our Pune facility. So we are trying to debottleneck the operations there. But we do have large land parcels in the other two locations, in Ratnagiri and Masar. And we are trying to make sure that we have, in the short-term, headroom for growth as well.

**Dheeresh Pathak:** How much can we increase, 5%, 10%, 15%, how much percent capacity can we increase through debottlenecking?

**Ajit Venkataraman:** So up to about 5% to 10% would be what we'll be able to.

**Moderator:** That was the last question. I would now like to hand the conference over to the management for the closing remarks.

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

**Chandan Verma:** Thank you all.

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