



“Astral Poly Technik Limited Conference Call”

July 10, 2018



Investec

C H O R U S C A L L ®

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MODERATOR: MR. RITESH SHAH – INVESTEC CAPITAL SERVICES

Moderator: Good day ladies and gentlemen and welcome to the Astral Poly Technik Conference Call hosted by Investec Capital Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you and over to you Mr. Shah.

Ritesh Shah: Thanks Margaret. We have with us Mr. Sandeep Engineer – Founder and MD and Mr. Hiranand Savlani – Chief Financial Officer of Astral Poly. This call is to discuss Astral’s acquisition of Rex Polyextrusion. Without much ado I will hand over the call to Mr. Hiranand Savlani. Over to you sir.

Hiranand Savlani: I think first Mr. Sandeep Engineer will address and then I will take the financial part.

Sandeep Engineer: Welcome all of you and we are making this call to brief you and take you through our acquisition which we concluded yesterday of Rex Polyextrusion, acquisition of 51% equity and then amalgamation of the company.

I would like to brief you about the company, Rex is a three decade old company and it is the company who was the first one to bring corrugation pipes to India first it was brought by them for the cable ducting and later on they entered into the corrugated pipes, double-wall corrugated pipes which are used for sewage and drainage applications. Rex was started by two brothers in Sangli, Mr. Dandekar brothers and Rex Polyextrusion then set-up a unit in Uttarakhand also. The main unit is in Sangli in 33 acres campus where they make the corrugated pipes for drainage-sewage, they make the telecom pipes, corrugated pipes single walled, they make agriculture perforated products which are used for removing the salinity of the soils and they also make lot of products which are used in urban infrastructure products. The existing plant capacity is 26,900 metric tonnes, both the plants put together and last year the utilization was around 45% to 50%. With this acquisition we also get a 37 acres of plot which Rex owns in MIDC Sangli where we can further take expansions of Astral existing products to be made in the center of India and expand the double wall corrugated business which is already done in Sangli. The Sitarganj plant also makes certain sizes of double wall corrugated pipes. The single wall corrugated for the cable ducting as well as they make certain PVC pipes of special application. The logic behind or the idea behind getting into the Rex Polyextrusion, the first logic is that Astral does not have many of these products in its portfolio so we get a ready capacity, we get ready manufacturing hubs both in North and in central India. These products are in high demand. The double wall corrugated pipes or drainage sewage and the cable ducting products are in very high demand know from last one to two years. Not only they are sold in projects which are undertaken by government and semi-government bodies, infrastructure growth of the metros, the railways and many other Swachh Bharat projects but they are also equally in demand by our distribution network. Our distribution network has been demanding and pressurizing us to see that we come into this

pipes which are also used by private builders and in developing the infrastructure of this whole project which is doing like in cities, all the big cities and even these Tier-II cities. So this is one of the very strategic acquisitions which Astral concluded, not only to reach new locations but the basic idea is to increase the product portfolio and almost complete the product portfolio which was missing in Astral bouquet.

Double wall corrugated pipes are the future of Indian infrastructure, whether it is drainage, sewage, rainwater, they will be used in huge quantity for the fast growing infrastructure projects in India. They will also be helping the infrastructure growth of private organizations throughout the country. Secondly with Astral having its presence in now started its plant in Jaipur which is up and running near Jaipur and South at Hosur and two plants in Ahmadabad. We are strategically located at places where we can even expand the same product capacities and service the infrastructure market by saving the cost of transportation. The acquisition also helps Astral to get into a location which is very prime for agriculture business because Sangli is the belt for sugarcane, huge market for agriculture business. Astral will also put plant there to make its own product line, agriculture pipes, column pipes, casing pipes and other pipes in near future with new investments to come. We already after yesterday finishing and concluding the acquisition of Rex and today immediately taken some key decisions to bottleneck to have certain equipments which were actually happening on to the sales and they were really the bottleneck for the company and this will also help us to get into new products, new range of products in double wall corrugated to add capacities in certain product portfolios where they are having good orders. And secondly completes certain range which was outsourced by Rex from other suppliers or other molding companies. So immediately we are in action to see that we give the proper justice to the products, to the business and the product line. Mr. Dandekar is going to be with us, he is going to take us through the process for every three years to hand holding and look after the sales. Already it has been decided so it will be a great benefit to have his experience for Astral. Apart from that Astral will also technically have its own people to learn more from Rex about the special products they make for certain application in railways and communication industry. They also have certain products which are made in India by them only, plastic sheet in the ducting products which is used for post-tensioning for flyovers and bridges. This now the post-tensioning technology is highly used in flyovers, bridges, the metro projects and they have all special duct pipe for this. So with this Astral has this strategic acquisition which will help Astral to grow its piping business, to be in the infrastructure business in a big way, to have more capacities, to have more locations and to complete its bouquet for the need of these products in this hour.

Secondly Astral is already we have this call to just to brief you, already started its plant at Ghiloth. The expansion work at Hosur is on the way and the capacity increase will be finished in next two months, so there also we will have new machines, new capacities. The same thing is going on in Ahmadabad so overall we are very much committed to growth with the infrastructure industry is growing. On the numbers part, Hiranandji will be briefing you; the adhesive also is doing lot of things, the Resiquick which was launched in the market is picking up with its response. I would also take the opportunity in this con-call to announce that for the specific Resiquick product which is young and new for us we have tied Mr. Varun Dhawan as

our brand ambassador for a single product Resiquick and today itself is new ads are being made in Mumbai. So Resiquick splash will come in a short time from now for the branding and the marketing and rest we will be working hard see that Rex Polyextrusion which we have acquired, we will be growing, and the pace of growth will be increased to many folds by Astral joining hands with them. I would now like to handover the call to Mr. Savlani to take you through the numbers and then I think there will be lot of queries and questions from all of you which we will answer one by one. Thank you everyone for joining us in this call and I will hand over the call to Mr. Savlani.

Hiranand Savlani:

Good afternoon everybody. Thanks for joining this call with a short notice. I want to brief you the few financial numbers, of course we are new to this company so it will take us lot of time to understand each and every number but the broad number I want to share with you that basically the enterprise valuation we have worked out to be Rs. 190 crores, our equity value is Rs. 147.5 crores and the debt is roughly about 42.5 to 43, so roughly about Rs. 190 Crores is the enterprise value. Last year turnover was around Rs. 170 crores and the EBITDA was roughly about Rs. 27 crores. So, on an equity valuation basis if you see that we have paid on a trailing basis seven times EBITDA, on a forward basis FY19 basis which will be much-much lower. If you see the net block of the company it is roughly about 61 crores net block with this company and the net worth of the company is Rs. 69 crores. Last year the PAT was around Rs. 10.8 crores and previous year it was around Rs. 12 crores FY17, so there is a small dip in to the PAT in the current year. Capacity as Mr. Sandeep Engineer mentioned you, the capacity is 26,900 metric tons this year, last year it was 16,000 metric tons. So in a single year last year we have added the capacity from 16,000 metric tons to 26,900 metric tons, so roughly about 10,900 metric tons we have added in the last year and that is why the utilization is roughly about 45%-46% and company had spent around 26 crores in CAPEX last year. So this is a brief number and if anybody want a further detailed information we will be handling the question answer session, if something is not available to us please excuse us. I will handle that number to anybody on a one-on-one basis. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sriram R from Sundaram Mutual Fund. Please go ahead.

Sriram R:

What would be the market size of DWC in India and whether this DWC market is same as the DI Pipe market? My second question would be what will be the industry capacity and who are the major players?

Sandeep Engineer:

This is not used for clean water; DI Pipe is used for clean water, ductile iron. The double wall corrugated pipes are used for sewage, drainage and rainwater, so there is no comparison with DI here. The market size is growing. The market is evolving so we don't have a specific numbers of the market size. The market is evolving but evolving very fast. The companies who are there, the Alom Extrusion is one of the oldest one who brought double wall corrugated to India. It's a Kolkata based company, so Supreme makes it. PRIM has recently started, PRIM Mr. Jayantibhai Group, Rex was the oldest even before Alom. And I think to my knowledge these are the four companies who are there who make double wall corrugated pipes. The

market for this pipe is going to be great because there are lot of advantages of double wall corrugated pipes against the cement-concrete pipes which are used for drainage sewage and water because transportation is easier and cheaper, strength is very high, no effect of any chemical, no breakage, very easy to install even longer lengths, so even when you transport you transport bigger pipes with long length and you can do pipe in pipe transport to further save the cost of transport, less labor is needed. You don't have to make big holes here, so lot of advantages are being carried. All developed countries, US, Europe, China are shifted from Germany have shifted from the cement pipes to double walled. Even they use it in the highway building where you have the crossing of waterways these pipes are used in all these developed countries, so it is very evolving market at a very promising market of future.

Sriram R: DWC cannot be used for clean water, is it, technically how is it?

Sandeep Engineer: They are non-pressure pipes and clean water is all pressure, so you cannot use DWC for clean water. It is a non-pressure pipe. Whenever you have sewage, drainage or any water, rainwater you don't need pressure, they are all going gravitationally, so it's not a pressure pipe.

Moderator: The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: My first question is for Mr. Engineer. We have acquired this company, how does it help us specifically on the approvals, does that reduce the timelines to cater to government projects that's one? And if you could give a broad indication of the revenue split between private sector, public sector that is one? And my second question is for Mr. Savlani, how do we look at the working capital and the goodwill component of the quantum that we have paid to Rex?

Sandeep Engineer: Basically the government size and is there in approvals in most of the government bodies and even railways and the telecommunication companies, so the size of this market for the cable ducting is huge and exact number still we need to get into those numbers. The government usage for drainage-sewage has just started a few years back because this pipe went through many approvals then went through ISI process and everything was completed just two years back now. Many-many projects for Swachh Bharat for drainage, for sewage, for clean water are coming and lot of municipalities and government bodies have started putting double wall corrugated pipes in their tender spot in their requirements. So, the market again I'm telling you is evolving. The private sector side also the usage is evolving because first people used solid wall for drainage, PVC then shifted to foam-core and double wall corrugated pipes and now people are using that for the certain sizes where the drainage pipe is very small in dia but as it goes above 200, people prefer double wall corrugated. So now if say some builder is having a whole community which is built with 10 towers, 11 towers they need this pipe to use as drainage and sewage within the community. And somebody is building the community with the golf-course or somebody is building the community housing they need this within their whole campus and this market also is evolving. To meet the usage at some point would be phased out more for the infrastructure projects and maybe ratio of 60:40 or somewhere like that which I presume at present, I cannot exactly come out with a number of usage percentage.

But as soon as we run the business for a few months I think we will be able to answer such queries very-very clearly.

Ritesh Shah: I was referring to the approval timelines, so are there any entry barriers for any new guy or company to actually....

Sandeep Engineer: Many approvals will be automatically transferred, so we will start. We will start working on it and I think many approvals nowadays for infrastructure projects happen much faster than it used to happen and many people want this product, so it is going to be pipe in supplies so the approval would be always faster than what it used to be.

Hiranand Savlani: Ritesh coming to your question of approval, you are right that with this acquisition Astral anyway was planning to enter into the double wall corrugated but with this acquisition we are getting the ready platform with ready approvals, ready standard fixation, so it will be going to save a lot of time for Astral and we will be able to move respite our dealers and distributors, very-very fast which perhaps could have taken more time if we have gone on a standalone basis. So that definitely is going to help us to move faster and to this business.

Secondly coming to your second question of working capital, working capital cycle definitely when the smaller company there who doesn't have a brand strength and all and when they joined with the brand definitely it is going to help to improve the working capital cycle a lot. One thing is clear, we will be following the same discipline what we have followed in Astral that we will not be selling it to the direct project. We will be selling it through the distributor or through the contractor, we will not be selling directly to any of the government. So there we want to be very strict into that side and we will see that the working capital cycle what the Astral is enjoying right now will be maintaining similar to that or maybe little bit few days here and there. That kind of things we are going to plan but exact working capital cycle and all will be no one, you want this balance sheet number, and everything will be out by the FY19 by the time we will be cleaning up all this thing. Wherever we feel we are not comfortable we will cut off that kind of thing. We will convert that through the distribution and all this thing, so I am sure that the working capital cycle will be more or less similar to what Astral Pipe is right now. Now your third question was relating to the goodwill. I think right now it will be roughly about 60 crores kind of amount will be there into the goodwill, so that we will take the amortization of that. So we will be taking the advantage of write-off, so we will be saving 33% of that, so roughly about Rs. 20 crores tax saving will be there by this acquisition. Our effective cost of acquisition will be lesser to the extent of Rs. 20 crores.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: How does the acquisition cost of 190 crores compared against the replacement cost if we were to set up the same plant? I understand that there would be a lead time involved if we would do it on our own and the second would be how do we see the margins for the plant going ahead? I

mean can we increase it significantly or is it just the operating leverage of increase in the utilization?

Hiranand Savlani: Basically if you see the replacement cost, it will not be a much difference because now all the land cost, construction cost everything has gone up. So if you see the goodwill amount is hardly Rs. 60 crores out of this 190. So if I put up the new plant with the similar kind of thing I can say maybe Rs. 20-30 crores. But that is not significant but compared to that we are getting a ready base of 200 crores, So that is very important to move faster into that business. For us we don't think that we have paid so much of premium compared to the asset value.

Secondly your question regarding the margin, I think it's too early to comment how much margin expansion we will be able to fetch. Definitely the synergy is there, economy of scale will be there. Astral purchasing power strength will be there, money strength will be there, so all these things ultimately going to help to the Rex. So I am sure it will help to improve that thing. But at this stage I think it's too early to comment that we will be able to grow margin by 1%, 2% or 5%, it's too early. Let us give us couple of quarters to understand the business in detail and then we will come up with this kind of number that how we can improve that part.

Madhav Marda: Can I ask the question on the adhesive business or should we just do that after the quarter results are out?

Sandeep Engineer: I think it is not the right time to discuss on the adhesive because we already completed the quarter and results are due on the month-end. So maybe I don't know 30th or some date we are almost close to finalize, so we will discuss post the quarterly numbers.

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

Maulik Patel: Is this 170 crores of revenue which company did, its largely from the government projects or is there any private sector construction revenues there?

Hiranand Savlani: It is a combination of both, so it is not only government sector and the major contributor is double wall corrugated and telecom pipes. These are the two main contributors to the revenue.

Maulik Patel: When I say the government revenue would be what 80%-70% of the revenue approximate?

Hiranand Savlani: To be honest I have not seen the exact detail number, how much is from the government and how much from because then I have to go to the party level and I have to ask from the distributor where he has sold. It's a cumbersome exercise which will be difficult to get it out at this stage of DD.

Maulik Patel: He has his own set of distributor also, right through which he is selling this DWC pipe and other pipes?

Sandeep Engineer: Yes they have it.

Maulik Patel: As you said that the distributor should also demand in the DWC pipe and you see the market opportunity. We also understand that couple of your competitors are also setting up the DWC capacity in a bigger way. So, from your experience do you think that is it similar, can it be like when on an overall CPVC market over the next 5 years?

Sandeep Engineer: This won't be like CPVC, let me Maulik understand that there can be people who are coming but that will be very few because two things are here important, one is the cost of the machinery is very high. If you have the right machinery and if you buy the wrong machinery let me also correct that this Rex has almost a very good capacity and let me again bring it to your knowledge that this was the first company who actually brought a double wall corrugated pipes single wall then double wall. Second thing is that the technology is not as easy as making the PVC pipes or agri pipes. Here you need to have a capital investment very high, second is these corrugated are not easy to run. You have to take care of the corrugator very well otherwise if any wrong way of running, you have actually to put the dyes and things together in the corrugator as you change the size and if you make a mistake they can break, or they can have damages. So it is not a product where like CPVC 100 people can run into every corrugator cost roughly, a line is around Rs. 20 crores. And Astral, as a company is happy to have a few people here because then only it is good for the product to grow and more the merrier because the good part is we will enter, the financial capable parties will come into the business and they will try to create a good market together. But if you go with the companies who are there at present, the two companies have good machine of Germany. This Rex has German machine but there are people who are bringing Chinese corrugation machines which actually, the product is not performing, the machine itself has its own issues which I have learnt from the market. I cannot really say without experiencing it but this is what I have learned from the market not only in India but globally. This needs proper good European or a company who makes in Canada its machines to get a good and right product. Secondly, the importance of the good machine is you need right amount of plastic which should be used to control the weight also and with the weight the strength. So this product has lot of technicalities involved in the making. It is not a solid wall simple pipe I can tell you. And you need to do the right thing at the right way and right time for make this pipe. The technology is there behind this product.

Maulik Patel: I understood, so unlike on a CPVC where we have 70-80 players at least this probably will have not more than 8 to 10 players I mean in the 3-4 years down the line because of the complexity associated with the manufacturing?

Sandeep Engineer: Secondly, it needs lot of land actually. The plant itself is very big because the corrugators need lot of space and length is very high because of the extruder, then corrugators, then a cooling tank and then the cutting tank and then this tagging unit. When you have to store this, this can be stored in the open areas, but you need lot of land because these pipes are big, and you need too much room to store then. So it is really a good capital-based project. For a single project to invest so much capital, you are a better aware than me how many people can walk in.

- Maulik Patel:** As I understand that transportation cost is going to be significant part of that product because it's on a very large diameter pipe. So when will you plan to have this corrugated lines, probably new line in each of your existing facility is probably Neemrana, Rajasthan then there is in Ahmadabad and in Hosur which can probably propel the growth of the DWC pipe for you.
- Hiranand Savlani:** I think in our analyst meet Maulik we have very clearly and categorically said that we have already ordered three machines which we already discussed earlier also considering this acquisition in mind but that time our mouth was shut so we can't speak that time that we are going to acquire. But we had an internal discussion with the promoter that you can order three machines which we can keep, one in Gujarat, one in Rajasthan, one in Hosur and these two plants of the promoters. So totally practically five locations these machines will be there. So practically we are going to cover the entire country except East. I don't think this will be any problem to us. We will be as far as the most convenient supplier for any of the projects in India because logistically we will be the nearest.
- Maulik Patel:** What could be the volume in FY18?
- Hiranand Savlani:** I think FY18 was 12,527 MT.
- Moderator:** The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah:** Just want to understand the synergies which this will give, both in terms of procurement and in terms of utilizing Rex's dealer network that's one? And two is, what would be our investments in our own facilities wherein we are targeting addition of almost like 25,000 metric tons per annum across our factories?
- Hiranand Savlani:** There we are targeting to put another 30 crores kind of machines. That will be our initial investment and then maybe Rex may require small-small machines additional. So totally all put together we are targeting to put around max to max Rs. 40 crores.
- Nehal Shah:** 10 crores for what?
- Hiranand Savlani:** 10 crores for other miscellaneous items which Rex right now needed.
- Nehal Shah:** In their facilities?
- Hiranand Savlani:** Yes for their facilities because we are already having the land ready with us, building ready with so we did not have to spend money over there. We have to put money in the machine.
- Nehal Shah:** Some balancing equipments at Rex's factories?
- Hiranand Savlani:** Yes.
- Nehal Shah:** Synergies in terms of procurement and dealer network.

Hiranand Savlani: That will be the great synergies because Astral is having a very vast distributor and many of the distributors are already ready to buy with an immediate effect. So that synergy will always be there and particularly the smaller dia pipes and all will be moving very fast into the private projects. So only large dia pipes need a government side more but otherwise smaller dia pipes will be moving very fast into the private projects. So synergy wise I think it's perfectly fit and it can be synchronized as early as possible.

Sandeep Engineer: Already a few of our key distributors already selling that product also and many of them would like to sell. There are distributors who are selling the products are also very well-known to us and wherever we need we will take the right help from them to also help us to sell our other products, so there has been a synergy thought about in my mind and worked out and I think it is going to make a good win-win for Astral as well as Rex both.

Nehal Shah: And how they utilize their distribution network, is the existing distribution of Rex already selling the other products as well?

Sandeep Engineer: That we don't know as of today. I'm aware but let me get through the whole business and then we will let you know as things proceed. You need to get a time of 3 to 6 months and we will let you know as the thing will be.

Moderator: The next question is from the line of Vishal from Aviva Life Insurance. Please go ahead.

Vishal: How big would the market be for DWC pipes in India?

Sandeep Engineer: I told everyone that at present please let us understand because it's an evolving market and evolving market we cannot get the exact numbers at present because the market is moving very fast from the cement pipes to this pipes for us. So the exact market can be too big and market can be even restricted if the usage is not there but market is evolving very fast and it can be a very good market in the future as most of the use infrastructure projects slowly are shifting to use the double walled corrugated pipes.

Vishal: One question on the financials of Rex, what would be the ROC-ROA- if you can share for last year?

Hiranand Savlani: I think we have to work out that things in detail because right now we were in the hurry and last moment all this audited numbers and all this has come. Maybe in the next con-call we will be more comfortable to share all these individual numbers ROC and ROA. But I can say it is a decent kind of ROC number because in this business at the gross block level roughly turnover work out to be 4.5x, so we have decent ROC.

Moderator: The next question is from the line of John Perincherry from Emkay Global. Please go ahead.

John Perincherry: I would like to know when we do the amalgamation of Rex into our company, how much shares in Astral would be issued?

Hiranand Savlani: It will be issued around 7,20,000 roughly about that kind of shares at a price of Rs. 1000 so 72 crores we have to pay so we have 7,20,000 roughly I am giving you the number. So practically it will be 0.6% dilution.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: If I recall just a month back analyst meet, there you have announced the entry in DWC pipes where we were focusing a lot on technological advantage which Astral will bring in the industry and you were focusing a lot of technological part. I understand that with this acquisition you get an access to registration approval and ISI approvals and all but what new or what additional will be there in technological part which will be brought by Astral in this?

Sandeep Engineer: Basically, Astral people work on the plastics and polymers right from the global companies of machine suppliers and what experience Rex brings in this product line will always make a win-win. The technology advantage actually Rex brings more in this product especially than us let me be very frank because they have been in this product line for many years. And Astral's technological advantage is that Astral has a huge technical team so there are certain things which are compounds which we can evolve together because there are compounds to bring strength in this pipe, there are compounds which are used to make certain specific products in the cable ducting where Astral has its own knowledge. So basically, both knowledge shared together in completing the portfolio of the product line and giving good products to the market will always bring a lot of advantage to the infrastructure market of India. It is going to be win-win from both ends.

Rohan Gupta: The technological part Rex was already well-suited for the technology which they were already working on, the industry as per you is just emerging, they have got all the approvals in place. As I understand over the next 3 to 4 years are going to be very-very good for the industry then what according to you could have been the reason for Rex to sell the business at so roughly stage?

Sandeep Engineer: That you have to ask them that I cannot tell you. What can I tell if the seller has sold the business. It is their decision. I cannot disclose their family things or anything why they took this decision; sorry I cannot answer this question.

Rohan Gupta: But is it so that the business as you said that there will be place for very few players only in this industry, so the industry will continuously see consolidation and smaller players will keep on exiting the business?

Sandeep Engineer: I would not say that things are not open for everyone. The markets and businesses are all open. As a business needs lot of capital this is what I assumed that the players who come we need lot of capital, one. Second, there is technology to make this product so people who come or people who buy proper machines, machine only buying is not the work, running the machine properly is also the need of the hour. There is no barrier to entry for anyone in any business. But looking to the plastic piping industry if you say in PVC how many people can enter, you can

understand by investing 4-5 crores people can enter PVC. CPVC how many can enter by investing maybe double or more in machines people can enter. Here then it at least 4-5x more investment in this business.

Hiranand Savlani: So, to answer your question basically you see whenever any small group join with the bigger group, they always be the beneficiaries. So they are not completely existing themselves, so basically 49% they are taking by way of shares and they are going to continue with us, at least minimum commitment is three years. They can continue for 6 years also 7 years, 10 years also depending on how the relationship develop and how jointly we are growing the company faster. So in a way you say it is a win-win for both. They are going to get the upside also at the same time they are de-risking their business also and Astral being a stronger player in the market having a stronger brand strength, so it is always advantage to both the companies. We have got the ready platform at the same time they have got a good financial partner, so it is a win-win for both and they are taking the shares of Astral. So they are not going away from the business, they are with us. We're jointly going to grow the business.

Moderator: The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: If you look at the last four years of numbers of the company, EBITDA margin has been 8%, 17% and 21% and then 16%, how should one think of because the company was growing but do you think 17%-18% is a most stable EBITDA or more like (+20%)?

Hiranand Savlani: I think Nitin I have already replied this question in my earlier questions when somebody asked. We are a newcomer into this business so we have to understand first, maybe this question I can be in a position to reply 2-3 quarter down the line after understanding in detail because we have to see how the Astral can aid the synergy because Astral has a lot of advantage because of the financial strength because of the economy of scale, having the relationship with the supplier because suppliers are also common. They are also buying from Reliance, we are also buying from the Reliance. So there are lot of advantages connected with us but how much we are going to convert into the number game or how much we are going to improve the EBITDA margin and all I think we will be the person to reply you may be few quarter down the line, not in a hurry. First we have to understand the business but yes looking to the past track record they are improving the margin, so I think 15%-16% should be the ideal margin. There may be a scope but it's too early to say how much more.

Nitin Bhasin: Because this is a function because this business is with contractors which in terms at the government companies or government projects, is the working capital of this business traditionally or otherwise always going to be little longer than Astral's otherwise the earlier business?

Hiranand Savlani: I think you have joined late in the call. This question also I have replied in detail that working capital cycle will be more or less we will try to keep similar to Astral. Today maybe little bit here and there but we will try to see that it will be equal to the Astral level because we don't go into sell directly to any of the project. We will be selling it through our distributor only or

maybe through the contractor. But our working capital cycle we always try to be in a very-very tight controlled manner and that is what Astral is known for that. So we don't want to rush just for the growth to compromise with our receivable side.

Nitin Bhasin: The split between pipes and fittings in this business because erstwhile we have seen that in the earlier CPVC business pipes versus fittings make a lot of difference to EBITDA margin, how is it here or is it not a relevant question again?

Sandeep Engineer: No it is not relevant. Here only pipes have equal margins and the fittings, so fittings are made but they are made from pipes by fabricating them. The pipes make the curves, elbows whatever you want.

Moderator: The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: You explained in the start of the call during the call that this is a very complex manufacturing process. Does that also entail a higher maintenance CAPEX in our traditional business or that is not the case?

Sandeep Engineer: Let me again clarify the manufacturing process is complex in the way of running the machines. But if you run with proper technical hands and it doesn't need maintenance, so there is no maintenance cost.

Avi Mehta: You also indicated and Hiranand Bhai highlighted now that we would look to curtail the working capital, bring it closer to the Astral's level, is there any possibility of any loss of sales because of this or that would not be the case just clarifying that part to me.

Hiranand Savlani: I don't think so there will be loss of the sale because once you are joining hands with the brand market also understands that how they are associated with the brand when you are a smaller earner buyer will try to squeeze you but when you are sitting with the brand buyer will also understand that here by bargaining power will not work. So ultimately it is going to help to the Rex, so to what extent, give us few quarters to understand the business and by the year-end we will coming up with the numbers and everything will be sharing with you and that time we will be giving you the guidance also how it is going to work.

Avi Mehta: Is there any the distribution level, there is obviously going to be the commonality that you indicated, and we have a much bigger distribution network that can now take this product up. Does that mean that initial growth rate will be largely distribution led clearly which is the lower foot, would that be a fair understanding?

Hiranand Savlani: Yes, you are right. Definitely once this Astral distributor will join with Rex then the distributor-led growth will be much-much faster. But again I'm telling you all this number games and all we need some time. We have to understand that in detail and we have to see how many distributors we can connect on an immediate basis, so these all are the synergic questions which will take some time. We don't want the market to expect too much the immediate basis.

But I can only see that the future is very bright and opportunity is very-very large, so it's a question of only time. We may need two quarters more to understand and give you the detail about this business. It's just a beginning of the journey, so we are also learning. We are also understanding so we can only request that give us some time to understand and then we will come up with the whole answer.

Sandeep Engineer: Again, I will request everyone not to get into, we need a few quarters. It is a new product line for us. It's nothing that which is Astral has been doing and it knows. It is an evolving product, it is a product for the future. It has a good market. The company knows how to make the product. These are the advantages, the company has approvals at many-many places and that also gives the advantage. There are people who run these type of machines there. They know the intricacies of the process, they know the intricacies of running such machines. But for Astral this is a new product line so I would not make any big statement here. What I would like to just let everyone know is that this has been acquisition which extends the Astral range and extends the Astral margin. What synergies come around, what synergies are developed, what distribution synergies are developed, what are the future markets developed, how much will go to the government, private, what will be the size of the market, what would be the new ways all would evolve after at least 3 to 4 quarters and we will be able to give you a clear picture of the future of this business and how Astral is moving ahead.

Moderator: The next question is from the line of Supriya Madhey from East India Securities. Please go ahead.

Supriya Madhey: One question is to Mr. Savlani I just missed the number on FY18 net profit for the Rex, so just please provide me that.

Hiranand Savlani: It's 10.8 crores.

Supriya Madhey: Just wanted to understand like the Rex was the first company to introduce this DWC pipes in India, so are they dependent on technology to be imported or they have any technology tie-ups?

Sandeep Engineer: No, they are having their own technology, so they are not dependent on anybody. These machines are not made in India, these machines are mostly made in Europe. We are the first one to bring this product in the globe and now there are a few China manufacturers who make similar machines.

Supriya Madhey: In addition to this machine you said we have to buy three more machines to be set up in our other businesses if I understood it correctly?

Sandeep Engineer: That is for the locational advantage which we are going to take for transportation at our different locations we are going to set up three more machines at different locations.

Supriya Madhey: Which need to be imported?

- Sandeep Engineer:** Yes. Everything comes from abroad.
- Supriya Madhey:** And the revenue mix of the 170 crores which Rex has done it, you did mention that this is coming from the DWC and the telecom, so is it possible for you to give the breakup?
- Hiranand Savlani:** No we don't want to share the data at this stage.
- Supriya Madhey:** Is the realization is approximately around 1,35,000 per metric ton we can assume?
- Sandeep Engineer:** It is a backward calculation. We don't get into this number.
- Supriya Madhey:** Post this acquisition or to fund this acquisition what will be our debt level going forward?
- Hiranand Savlani:** I don't think it's big because I have told 49% of that will go by exchange of shares, so the balance 51% is roughly about Rs. 75 crores. so that Astral can fund from their internal accrual or maybe little bit Astral has to borrow then Astral will borrow. But looking to our cash flows, such a strong cash flow we are expecting this year we don't see this will be a significant amount for us.
- Moderator:** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Just wanted to understand Rex People, is this only business they had or they had other businesses as part of the group?
- Sandeep Engineer:** I don't think they have any other businesses.
- Achal Lohade:** We bought the entire company but it's only a certain section of the business?
- Sandeep Engineer:** We bought the entire company and it is 51% by cash and 49% by way of shares and they will continue with us for minimum three years and they may extend as many years they want.
- Achal Lohade:** I'm just curious to understand was there a stress in terms of the management of financials as a result of they had to sell out or it is a consolidation playing out?
- Sandeep Engineer:** I think more of this consolidation because they wanted that the bigger players join hands with them so that they can grow faster also and at the same time they can de-risk also.
- Moderator:** The next question is from the line of Kalpesh Gothi from Wellentus Advisors. Please go ahead.
- Kalpesh Gothi:** I want to know the new Rex products, all the products will we rebrand to Astral name?
- Sandeep Engineer:** No it will continue as Rex only. The brand will continue.
- Kalpesh Gothi:** But parent brand will be Astral, right?

Sandeep Engineer: Yes 100%.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Ritesh Shah for closing comments.

Ritesh Shah: Thanks Margaret. Sandeep bhai any closing remarks please.

Sandeep Engineer: We thank everyone and I think we have briefed everyone to our best knowledge. We will again see how things go ahead and we will meet when our results are there. Thanks everyone for joining the call on a short notice. Thank you everyone for your interaction with us.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.