

“Astral Poly Technik Limited Q1 FY19 Results and Business Outlook Conference Call”

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**MODERATORS: MR. PRIYANK CHANDRA - DOLAT CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Astral Poly Technik Limited Q1 FY19 Results and Business Outlook Conference Call hosted by Dolat Capital. As a reminder, all participant 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 call, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. Now hand the conference over to Mr. Priyank Chandra of Dolat Capital. Thank you and over to you, sir.

**Priyank Chandra:** Thank you moderator. Good evening all and on behalf of Dolat Capital, we welcome you to the Q1 FY19 earnings call of Astral Poly to discuss the future outlook. We have today with us Mr. Sandeep Engineer - Managing Director, and Mr. Hiranand Savlani - Chief Financial Officer of Astra Poly. Now I would like to handover the call to the management for their initial remarks post which we will move on to the Q&A. Over to you sir, thank you.

**Management:** Thank you Priyank and I welcome all of you on this conference call for the Q1 results. Before going into the question-answers, I will like to brief you about the business scenario of pipe business and then adhesive business. The pipe business, we have got a good volume growth from the plumbing segment and we expect the volume growth to continue at least 15% plus. The plumbing segment is having good demand. The demand has opened up in the plumbing segment. We are getting good demand for the CPVC piping system, the PVC plumbing piping system, the drainage piping system and the newly launched products in the drainage other applications. The agri segment has its own challenges but Astral focuses more on the plumbing segment and the growth rate of revenues and the volume will continue for Astral from which plumbing segment sales of the different products. The Ghiloth plant, which we had last, in the last call mentioned it was about to start is operational, 2 or 3 product lines products are now being made there and the sales and distribution in the market for northern India and part of Rajasthan, MP has started from the plant. We would be completing the complete range of our piping products made by Astral which we make in Ahmedabad from the Ghiloth plant and in next 2 to 3 months Ghiloth will be making the entire range and feeding the northern markets and part of Rajasthan and MP. This plant in South at Hosur, where the consumption work is on is about to be completed. The warehouse which we are building around 300,000 square feet of warehouse is complete. With all the facilities to store racks, everything has been completed and we will be opening a huge central warehouse for South from the Hosur plant. The building for the production site is almost complete. We will start to move in new machines in the building in next 2 to 3 months both for making pipes for the range which we do not make and to fill in the capacities which are needed to be added for the range we make, and we will be also in the second phase there going with production of fast-moving fittings from the Hosur plant. The 2 plants, say in Ahmedabad where expansions are on for the addition of capacities where need be in the fitting production segment, new product segment and the warehousing need which is increasing with the growth. So, both plants are having expansion construction on which is almost at the verge of the completion. And within next 3 months, we will be completing all the needed expansion plants in Ahmedabad at Santej and Dholka plants. In

nutshell, in next 3 to 4 months our entire expansion plan which we are laid down almost a year back will be completed and will be in utilization for Astral.

Moving to the new products, we are launching PEX plumbing product in this month. The product has arrived in India. We have made the tie-up with a Spain, Spanish company. This time the tie-up is very stringent. We have almost covered its 25% capacity which we have almost bought out and the products will be made in Spain under the Astral brand. The PEX will be launched in India. PEX is a very advanced plumbing system for hot and cold water. Now almost all the developed countries it is used. It will not be replacing CPVC but will be extension to the usage of plumbing systems in plastics. And more replacing copper, stainless steel, metal and will be highly preferred in the high-end construction where people have already started using PEX by importing it from other companies. We have also made clear in our agreements that as the product sales increases in India we will be able to manufacture the product in India under the technical guidance and they would be completely helping us in the technology front. So, we this time, I have taken care to have a foolproof agreement and tie-up for the launch of PEX.

The PP mineral field product which we make, Silencio has shown excellent results. It is continuously growing, the demand is increasing and we will be able to get good sales and growth of this product in this fiscal. Fire has been always a challenge slow and steady it has been growing. We have some government hurdles which we are trying to overcome. Our ISI is always there from the beginning, but we are about to get the UL approvals also. So, fire market has shown some positive results in last quarter and we expect to see good demand coming up in this year and coming years. We have also launched channel drains by tying up with the company in Germany called Hauraton, which has shown very excellent results because we are the only company now giving a complete solution of surface water drainage. And giving the solution by giving products readily available from India because whatever Astral launches keeps enough inventory and feeds the market. So, that product line is also growing. The new product basket is showing good growth, good extension of new customer's projects and also helping the routine products to reach at those customers.

Coming to the branding side, we have done an aggressive campaign and we will continue to run an aggressive branding campaign which is always giving us good results. This time we are now going to focus on branding in the smaller towns with the user family programs, programs which can bring in the applicators to Astral in a big way. So, lot of these things are going, lot of activities are under way for the growth of the company and growing the market and continue to grow the Astral products in the India and the surrounding markets. Coming to the adhesive side of the business, before I move to the adhesive I would just like to brief in somewhat on Rex. Rex still, let us be very frank, we have just finished the acquisition. We are on the process of integrating the company to Astral, Astral systems, Astral people, Astral culture. So, integration process is on and going on.

We have annual conference also coming up from tomorrow. Our annual distributor conference in which we are going to focus on Rex product presentations, one-to-one meet with the

distributor, with our team and the Rex promoter also Mr. Dandekar will be present there. Because there is a lot of interest which has come through our channel for Rex products, especially double wall corrugated pipes and many other products which Rex makes in its product portfolio. Our Rex integration is on. It is showing very positive results and we do not want to go overboard and commit anything on the DWC or the Rex products till at least as I had mentioned at the time of acquisition we need 6 to 8 months to really give you a complete business scenario, growth scenario and future scenario of the product life.

Coming to the adhesive side, adhesive demand is good. Lot of new products have been launched. Adhesive is continuously growing, and we are expecting very good growth from the adhesive product line which we have recently launched, and which are already existing. And adhesive is going to give a great we see a great future for the adhesive business for Astral. With that also the UK operation which had its own troubles after Brexit, and the U.S. acquisition has shown very positive results in the last quarter. It has shown double digit growth, the EBITDA is improved, the bottom-line and the topline continuous to improve. So, this year UK operation and US will be back on track and adding more value to the adhesive business in terms of growth and the profitability. So, overall scenario for the gone quarter was great for Astral on the growth front and on the margin front which will be more discussed by Mr. Hiranand Savlani, in the form of numbers. And similarly, we expect this good growth and continued margin to be maintained in this coming quarter and we will again be coming to you after the quarter ending and we expect the same level of growths and margin to continue in this coming quarter.

So, I hand over the call to Mr. Savlani to take you through the numbers and then in question-answer we can be more clear on what exactly comes up from you all. So, thank you very much all of you. Thanks a lot.

**Hiranand Savlani:**

Good afternoon everybody. Welcome to the Astral conference call. I think numbers are with you but I want to just quickly go through the few numbers and then will straight way go to the question-answer session. On a stand-alone basis if you see the revenue has grown up by 15% from 298 crores to 344 crores. This revenue numbers are readjusted in the last year also mainly because of the GST effect because last year GST implemented from first July. So, excise number has been readjusted and accordingly the net sales number where 298 crores, again that this year after adjusting the GST effect it is 344 crores. Another one thing is that because of this Ind AS now the revenue number you have to reduce all the schemes or discounts which you are giving to the distributors which earlier we were showing as another expenditure but now we have to be removed from the sales number. So, because of that also, sales which we are seeing 15% growth actually it could have been more if we have not readjusted that number. So, because of these 2 changes the topline has dropped to 15% growth if we could not have done this adjustment the topline growth could have been more than this 15%.

The EBITDA growth was around 49%, in terms of percentage it is improved from 13.83% to 17.89%. So, there was a sizeable jump. If you see the past history of Q1 number, Q1 is always the slowest quarter for Astral and which you can see now from the public domain almost 10

years numbers are available. So, which normally contributes around 18% of the topline, so in that quarter always the EBITDA is lower but this time EBITDA has done excellent for us and gross margin have also improved a lot. Similarly, if you see the PAT level also there is a sizeable jump of 42% on a stand-alone basis again the growth of 15% in topline. If you remember our earlier communication to all of you that now company has started giving focus into the bottom-line which I am continuously reiterating in my every quarterly call that we are focusing more into the bottom-line and that is why compared to the topline bottom-line will be much faster growth and that is what exactly reflected in this quarter also which we are continuously doing since last 3-4 quarter.

The production side if you see that the volume growth there was a de-growth volume because we wanted to reduce our inventory level because at the March end we were having reasonably high inventory, so we do not wanted to keep the higher inventory. So, because of that we have not produced much but if you see the sales we have grown up by 15% in volume. But again, in production side also whatever we were sold are compared to that we were produced more. So, on an absolute number maybe this inventory has not dropped but on a percentage term it has dropped. Now coming to the consolidated number including this adhesive and pipe all together that the topline growth is around 18%. So, from 404 crores it has gone up to 477 crores. EBITDA has grown up by almost 60% which is from 50 crores to 81 crores. In terms of percentage there is a sizeable growth as mention Q1 is always low in terms of EBITDA but this year Q1 is excellent. So, it is grown up from 12.5% to 17% but that cannot be considered as a benchmark for every quarter. Again, we are reporting because business is always having a challenges and it is all depend on the fluctuation of the raw material price and how quickly we are passing on to the market. But right now, because of this backward integration and all we are taking lot of advantage and we are able to not only maintain our EBITDA, but we are improving our EBITDA. At the PAT level, profit has grown up from 24.8 crores to 37.7, so almost 50%-52% kind of growth is there at PAT level.

So, these are the broad number, if you see this individual adhesive company that the Resinova has grown up that Indian operation has grown up by 23% in topline from 77 crores to 94.9 crores. We are expecting these kind of 20% plus growth should we maintain in the coming quarter also because now we are going to launch the ad campaign which we have already communicated Mr. Varun Dhawan is already completed his shoot. So, shortly we are going to be aired. So, hopefully from September onwards we will be putting our advertisement campaign that is going to help the creating a brand image of adhesive products in market and is going to help us in a volume growth over a period of time. It may not be necessary on a quicker basis. EBITDA has jumped up heavily, it has gone up 87% from 8.8 crores to 16.5 So, overall in percentage term EBITDA is grown up from 11.4% to 17.4%. If you compare the Q4 EBITDA was abnormal which we communicated that these are the number which is not sustainable in last quarter also we communicated because the main reason was the inventory gain into the Q4 in the higher volumes also.

If you see our overseas operation of adhesive this topline has grown up by 27.8% from 36 crores to 46.4 crores and EBITDA has because of the low base it has grown up from 2.1 crores

to 3.9, so in percentage terms it shows 85.7%. So, EBITDA we have grown up by roughly about 2.5% compared to Q1 last year. So, from 5.8% to 8.4%. So, overall adhesive numbers are good what we plan we are going as per the plan. In fact we were expecting 20% kind of growth but actually it has come 25% kind of growth and going forward also we feel that 20% kind of growth should not be a big challenge to achieve. Regarding the demand scenario Mr. Sandeep Engineer has already said its stable we are getting good demand in housing sector particularly in the plumbing. We could have done much more than what we have done it 15% growth because we have change from this year in fact we since last couple of quarter we have changed the discipline into the receivable side. As a part of that discipline we have to sacrifice certain growth also but we are mentally prepared that we even if we have to sacrifice some growth we will sacrifice but we want that certain discipline into the receivable side and that is the reason receivables has dropped substantially in this quarter like in March it was around 220 crores-225 crores kind of receivable which has come down to almost 138 crores. So, there is a sizeable drop into the receivable side because now we are very strict into the receivable side. We have fix up the limit for each and every distributor. If anybody is crossing the limit they have to make the payment to Astral and most of the distributor we are connecting through the channel financing route.

Debt level is around 108 crores on a standalone basis. Regarding Rex, Rex number I want to clarify that this quarter there is no addition of the Rex number into our consolidation but Q2 onwards there will be a consolidation. Q2 and Q3 will be 51% consolidation and from Q4 onwards by the time we are expecting merger maybe get over. So, Q4 and maybe March we will be adding the 100% Rex number to Astral. So, the real number or maybe growth which you want to see for Astral that number will be reflected in FY20. Because in FY20 from first quarter onwards the consolidation of 100% of Rex number will be there. So, then the real number will be the right number to see the growth. Rex because the numbers are not added so we are not discussing much into that, but I can tell you the Rex is growing at a very rapid speed. Last quarter Rex had delivered a 46% growth on a Q1 versus Q1 year-on-year basis but that does not mean that you consider 46 as a bench mark. This maybe some special orders also because there the voluminous business is there but we are expecting that Rex will deliver a good number because Rex products are very highly quality products. Because in this category quality is very important, so Rex is very well known for the quality in the market and that is the reason we are getting a good number and good growth from the Rex.

So, with this I am concluding my initial remarks and we are opening up the floor for the question-answer session. Thank you very much.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Pritesh Shah from Investec. Please go ahead.

**Pritesh Shah:** Sir, my first 2 questions are for Mr. Engineer. Sir, what is our strategy on the East expansion if you could provide some timelines for that would be quite useful.

**Sandeep Engineer:** at present, there is no firm strategy on East, let me be very frank. We have lot of things on hand and we are at present we are working look at some options of available land, factories, ready buildings, or maybe also contacting different state governments for any help which they can give. But to be very frank nothing very solid everything in a liquid state.

**Pritesh Shah:** Sir, second question is on, how do you see the Resinova ramp-up? Should one see this business on basically is there some seasonality element involved and the reason why I am asking is in Q4 the revenue is for 115 crores. This quarter it is 95 crores. So, our expectation was it will continue to move up by every quarter, so that was one question. And coupled with this any specific response that we have received from the market on both Resiquick as well as Resiwood would be helpful?

**Sandeep Engineer:** Basically, always the Q4 is low for any company. It is a fiscal year ending quarter. So, the numbers are always higher, and the first quarter is always the beginning of the fiscal year. Though it is a beginning of the fiscal year, I feel the numbers are much better. There is no seasonality involved so much in this business. Its continuous growth, branding, strategies, products and the same year continuing to improve the products, bring in new products work on new product and I think this is all going to give us good growth and continued growth and good presence in the market.

**Hiranand Savlani:** Just to add Pritesh your question, yes normally the seasonality in the adhesive business is not much. But normally what Mr. Sandeep bhai communicated Q4 always every company could lot of schemes, promotional things and all because of that always the volumes are high. And Q1 always the volumes are very low which you can see in the past numbers also. That is also in the pipe business also. So, that is the reason that compared to Q4 numbers are low but if you compare Y-o-Y basis there is a same growth of 20%-25% kind of which we have maintained. So, though may not be a directly linked with the seasonality but this is the reality that Q4 is always a push sale from the every manufacturer. So, this is reflected in the numbers also.

**Sandeep Engineer:** Resiquick has a good response from the market. Still I would take 1 or 2 quarters to give you exact scenario on the product line because we have to do lot of branding for this product, get the customers aware and to increase the number of people who use Resiquick. Similarly, Resiwood, yes we are in a nascent stage again I would tell you very frankly, a lot of work has to be done there. So, these are the new product profiles for us and we need to work on this.

**Pritesh Shah:** Sir, last question from my side. Sir, what is the contribution from DWC that one should expect in FY19, sir? We have acquired around 26,000 tonnes of capacity around 180 crores of topline which I think in the prior call you indicated can be 250 crores and we are setting up incrementally similar capacity. Is it fair to assume that one can expect 500 crores of topline from this business Q4 FY19 exit rate?

**Sandeep Engineer:** No, Pritesh do not expect too much because it is a new business for us. It is very easy to extrapolate the number in Excel. But it is not easy to do in the real world. So, please do not expect these kinds of things whenever we will implement our synergy we will communicate to

the market. But it is too premature to expect so many things from the new product and new acquisition. We have to understand the business please understand. It is not easy to do the synergy in a quarter or 2 quarter like when we acquire Resinova, Resinova was giving 7%-8% kind of EBITDA margin. We took 2 year to do the synergy with that company. We have to do lot of work of changing the packaging, changing the branding, changing the all plants. It is a massive work, it is not easy. So, please do not expect expectation of so much of high growth from the new product and the new acquisition.

**Moderator:** Thank you very much. Next question is from Ayush Sharma from Investec Capital. Please go ahead.

**Hiranand Savlani:** We have stopped giving this individual product numbers since last almost 1-1.5 years. So, this because of the competitive scenario we do not share all this individual product number.

**Ayush Sharma:** Sir, can we have it like a traditional product versus new products split, in that way, if not we ...

**Hiranand Savlani:** Both are growing, new products because base is low. So, they are growing faster. So, in terms of percentage terms if you see they are growing on a faster pace. But overall both the segments are growing well.

**Ayush Sharma:** Sir, we cannot have more disclosures than this?

**Hiranand Savlani:** No, we cannot disclose, sorry.

**Ayush Sharma:** Sir, on the margin front at the standalone level we see records stand-alone gross margins but EBITDA margins are not having the same trend. Is there anything specific in the expense side as another expense or some other expense which is trading to this?

**Sandeep Engineer:** Because it is a low quarter. What I mentioned in my initial remark that Q1 is always the low quarter. Even a couple of crores Rupees of expenditure in other expense side or maybe any IPL related cost. I am giving you one example. Even 2 crores-3 crores here and there is going to affect the EBITDA by 1%. So, it is very difficult to say that margins are lower or higher. Because on a lower quarter basis you cannot take a judgment and that is why we always say that please compare the number on a yearly basis. So, it is very difficult for us to give the guidance or give the clear picture about the quarterly basis. So, please consider on a yearly basis. On year-on-year you start comparing and that is what we have say that we will be maintaining around 15% kind of EBITDA margin on a yearly basis. So, quarterly it will be really difficult to control.

**Ayush Sharma:** Sir, is it possible to quantify what is the expense on IPL?

**Sandeep Engineer:** Very difficult because, I think it should be around 4 crores to 5 crores minimum maybe more.

**Moderator:** Thank you very much. Next question is from Aachal Lohade from JM Financial. Please go ahead.



- Aachal Lohade:** Sir, can you please give the volume growth guidance for PVC and CPVC for FY19 and FY20? That is my first question.
- Sandeep Engineer:** We do not give individual guidance. We say company as a whole. We will be doing somewhere around 15%.
- Aachal Lohade:** And sir, second question is the capacity currently is 152,000 in the piping division. So, can you give the split of the current capacity in PVC and CPVC?
- Sandeep Engineer:** Because machines are interchangeable. They are fungible. So, we can use the CPVC machine for the PVC application. So, whatever right now the capacity is there we can interchange. So, there is no specific capacity that this is the CPVC and this is the PVC.
- Aachal Lohade:** And sir, the capacity growth guidance for FY19 and FY20?
- Hiranand Savlani:** I think once Hosur will be done then there will be no capacity expansion for the newer term except we are working on the East. So, we have to see how East is panning out for us. We are looking for a location but still we have not finalized and in between we have got the Rex. So, because of that our efforts are little lower on to that side. But we are definitely serious about the East, if that will come and in that case capacity will be added otherwise I do not think at this year we are going to add anything more.
- Aachal Lohade:** So, any guidance on the capacity from East that you expect?
- Hiranand Savlani:** It is too early because still we have not finalized the location. So, very difficult to say how much it will come.
- Moderator:** Thank you very much. The next question is from Sonali Saigaonkar from Jefferies. Please go ahead.
- Sonali Saigaonkar:** Sir, my first question is this quarter we have also spoken about in our expansion in EBITDA margins and it was also led by expansion in gross margins. Sir, is there any kind of inventory gain that we have witnessed this quarter and if you could quantify that?
- Sandeep Engineer:** I do not think it will be an inventory gain because prices are stable. But maybe little bit there here and there can be happened because of the currency because we have passed on little earlier and the currency was depreciated at a later stage. So, there may be slightly month-on-month maybe little bit variation. But otherwise there was no gain into the inventory side.
- Sonali Saigaonkar:** So, that currency gain that you talked about, is it possible to quantify that?
- Hiranand Savlani:** No, very difficult to quantify that thing. On an overall basis in fact we have lost Rs. 8 crores into the currency. So, it is not that we have gain in to that side. But because we passed on the CPVC price rise into the month of May and I think in April also. So, that time currency was not depreciated. Currency heavily depreciated in the month of May and end of June. So,

maybe April or May might have been little gain into inventory side but then again, it went away into the month of June.

**Sonali Saigaonkar:** Sir, my second question is, could you just broadly indicate what was the quantum of ad spent to net sales this quarter?

**Hiranand Savlani:** I have to check. I will revert back to you on a personal basis because right now I do not have a handy number with us. So, we have overall number. We do not have a specific add number with us. But it should be 1.5% max, I think.

**Sonali Saigaonkar:** Sir, going ahead we have spoken about our CAPEX and majority of our capacities are going to be commissioning. So, what would be the steady state CAPEX number that we should look at going ahead?

**Hiranand Savlani:** I think, this year will be higher CAPEX but from next year onward it will be very low because this year we have just completed this Rajasthan plant. Now we are planning to commission the Hosur plant. So, because of that plus we have added double-wall corrugated 3 machines. So, because of that there will be a CAPEX but next year onwards will be a very low CAPEX. I do not see any CAPEX because now by end of this year we will be having close to about you can say 230,000 metric tonnes. So, I do not think then we need any additional capacity for the near term.

**Sonali Saigaonkar:** So, sir what could be the CAPEX outlay that we could expect in FY19 for all the capacities that you just mentioned?

**Hiranand Savlani:** FY19 may be around 125 crores maybe little more.

**Sonali Saigaonkar:** Sir and one last question, is it possible to share what could be the approximate proportion of agri pipes in your overall piping volumes, right now?

**Hiranand Savlani:** We do not share individual number of any category but we can say it is a very negligible. Because our focus is not agri pipe, we are a plumbing pipe company and we want to be a plumbing pipe company. So, agri side we are just supporting to our existing distributor who are selling this agri pipe into the plumbing application. Though it has been terminalized as an agri pipe, but they are using into the plumbing side. So, we are focus into that segment only. So, will be very low volume.

**Sandeep Engineer:** Second we are venturing in to our infrastructure piping system with the double wall-corrugated.

**Moderator:** Thank you. The next question is from Supriya Madye from East India Securities. Please go ahead.

**Supriya Madye:** I just wanted to understand, like how our raw material to the cost of sales ratio has improved so much and oil prices are on a high for the reported quarter?

- Sandeep Engineer:** That we already said that, mainly the mainly the improvement which you are seeing, that is the backward integration. So, now continuously we are doing the efforts into that side and we are trying to reduce our raw material cost. Other than that I do not think any specific reason is there.
- Moderator:** Thank you. The next question is from the Nehal Shah of ICICI Securities. Please go ahead.
- Nehal Shah:** Sir, just one question. On the realization side on our standalone number realizations have been flat. So, if you look at PVC prices, the PVC prices year-on-year have been up significantly. So, where is the mismatch in terms of realization? Is it in CPVC or so, exactly what has happened with respect to realization, if you can throw some light?
- Hiranand Savlani:** Actually, if you see Nehal in the initial remarks I said that this is because of all this IndAS and all these things we have to regroup that number. Otherwise this could, number could have been 18% in the topline growth. So, basically that is the reason you are seeing that the realization is flat. But actually it is not like that because we have readjusted all this discounts all this promotional things which we are giving to the distributor that is now been deducted from the topline. So, because of this readjustment our topline is showing 15% otherwise it could all been 17.5% or maybe 18%. So, that is the reason per kg realization has dropped. But you have to see the per kg EBITDA number. That will be the right ...
- Nehal Shah:** Significantly higher by 30%.
- Hiranand Savlani:** That is what we have to track
- Nehal Shah:** And sir, with respect to CPVC prices, is the higher base are completely out of the system?
- Hiranand Savlani:** Higher base means?
- Nehal Shah:** Sir, post the change in the sourcing policy?
- Hiranand Savlani:** I do not think so. Because CPVC prices are now stable comparatively. It is not fluctuating heavily. So, I do not think near-term also we are seeing any price rise?
- Nehal Shah:** No, what I am saying is, is the higher base of last year where the sourcing was still with Lubrizol where the prices were higher?
- Hiranand Savlani:** No, That is, higher base is over now because we came out from the Lubrizol in the month of August 2016. So, that is over now.
- Nehal Shah:** So, that is completely done and dusted.
- Sandeep Engineer:** That is completely done.
- Moderator:** Thank you. The next question is from Pritesh Shah from Investec. Please go ahead.

- Pritesh Shah:** Sir, couple of questions. First is, sir any timelines on capital compounding at Ghiloth?
- Sandeep Engineer:** We have started compounding at Ghiloth.
- Pritesh Shah:** We have already started. And sir, Hosur also I presume like, we already started a couple of ...
- Sandeep Engineer:** Yes, it is working since long.
- Pritesh Shah:** And sir secondly, will it be possible for you to quantify how much is the quantum of fitting volumes or overall pipe volumes which we were moving from Ahmedabad to the southern market. I am just trying to gauge the cost advantage that we will have once we ramp up Hosur?
- Sandeep Engineer:** No, Ritesh sorry, we cannot share all these confidential number.
- Moderator:** Thank you. Next question is from Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Couple of things. Was there any inventory gain in this quarter number?
- Hiranand Savlani:** No, there was no inventory gain.
- Maulik Patel:** I thought the prices moved up in the month of June and we took some price hike also for the CPVC segment?
- Hiranand Savlani:** Actually, we wanted to improve our margins. So, we took the price hike. But it is unfortunately that the currency drop, Rupee depreciated. So, whatever we took the pass on from the market that is been eaten away by the currency.
- Sandeep Engineer:** So, we did not gain anything.
- Hiranand Savlani:** So, actually we were supposed to gain the margin but because of the depreciation of Rupee we cannot take the advantage out of that.
- Maulik Patel:** And on adhesive side, the raw material particularly the epoxy and all, has the oil is moving up, have you seen those prices are also moving up and probably putting any pressure on gross margin on adhesive side?
- Hiranand Savlani:** You are right. It is there. The trend is there and that is the reason in the last concall we clearly said that this 23%-24% kind of EBITDA margins are not at all sustainable. Because that was mainly because of the inventory gain but these kind of margin of 15%-16% into the adhesive or maybe 17 can be maintained.
- Maulik Patel:** Is it realistic to assume, around 18% or 17%, full year number for the Resinova business?
- Hiranand Savlani:** That is doable but it is too early to say how the trend will be there in the market. But I think, 16 to 18 broader range can be expected.

**Maulik Patel:** And Hiranand bhai, you mentioned about the Rex earlier. I could not get that particular that you said that full consolidation will take place from the Q4 onwards. I thought we purchased 100% of the company and that probably February from July onwards and in this quarterly number there will be the full consolidation in topline?

**Hiranand Savlani:** No, actually what is the deal that we have purchased the Rex in 2 parts. One was the cash deal, which was the 51% and 49% was again the shares. Shares can be issued only by the process of merger and merger normally in India takes at least 4 to 5 months, minimum I am telling. Sometimes it takes 6 months also. So, now we are maybe next week or so maybe this week we are going to file a merger application and that we are expecting to be through by another 4 months' time. So, till that time merger officially been approved by the court, we cannot do the merger of 100%. We can only merge the account up to 51%. And then once the approval will be there from the court we can merge in 100%. Indirectly speaking it is 100% only but on a paper when we published the number it will be 51 only.

**Maulik Patel:** So, basically, we will do it full and then given a minority interest?

**Hiranand Savlani:** Yes, exactly that.

**Maulik Patel:** And so, it is 100% but there will be minority interest of 40% to 49% stake.

**Hiranand Savlani:** Topline you will be merging but bottom-line you cannot merge. Bottomline you have to do the proportionate.

**Moderator:** Thank you very much. Our next question is from Sunil Shah from Axis Securities. Please go ahead.

**Sunil Shah:** I have one question here. Sir, this adhesive business that we had acquired almost couple of years ago, right now in this quarter it is accounted for almost 25% of our business. So, why after acquisition lot of synergies, lot of work would have been done on all the companies that we have acquired. Sir, where are we in that journey? I just want to understand not from a quarter or one year point of view but for need to understand that this adhesive business can be equal to my pipes business today. So, if for the next how many years or what is it that we will do so that adhesives EBITDA equals the pipes EBITDA over a long period of time. So, where are we in that journey, if you could give me some understanding on that?

**Sandeep Engineer:** Firstly, the journey of integration of both the companies and the cultures of the people who are working is now well in place. Secondly, we have lot of challenges for 2 years for upgrade the plants, quality, systems, safeties. So, 2.5 years went in the same journey. Now I can say everything is in place product, plants, people everything is in place. Now the real journey has started from almost last one year. The same will continue to grow. We do not know we cannot say we are in the race of pipe and adhesive both are Astral products. We do not want to both to race with each other. We want both to have decent growth, decent margins and decent market share and with the Astral brand pipe is well-respected in the market. We want the adhesives

respect too in the market as a product line and keep growing and selling. To reach a number of pipe or reach a number of margin at the pipe level we would in 5 years from now want pipe to equally continue grow. Adhesive is a smaller business than that in the form of numbers will grow faster and even in at a higher pace. But both have its own different segments and I do not want to think to catch up with anyone. Ultimately, it is a one company's product line. So, I do not see I am racing in my mind with each other. I want both to grow and at a decent pace to grow. And we will show good results on that.

**Sunil Shah:** Sir so, in the integration journey whatever was there and say your mind or the company's mind is in place now in terms of people, products, culture all the things which you mentioned is in place?

**Sandeep Engineer:** 100% in place and I could tell you one more thing that the thing which has to come in place is that we could smell pipe and understand what is good and what is bad and where we should invest. Now, at least we have learned adhesive to the extent that which are gone in our blood. So, that is the real way the business works there. We have not taken it halfheartedly just because we acquired and then there is a product line and just we will grow at some level and ignore the company in the second place because the pipe is there with bigger business. It has crept in into us and we assure you that these products whether it is pipe are used or adhesives are used in infrastructure by the same construction industry by the people who build buildings, roads, whatever hospitals, hotels and we would make it a great combination to grow together.

**Sunil Shah:** Sir, I have one more question, if I could get some understanding because Rex acquisition roughly we trade about 150 crores, 75 right now and eventually maybe 75 in terms of shares. Sir, what is the topline of Rex Limited as of FY18? Just a historical number?

**Hiranand Savlani:** FY18 topline was 169 crores.

**Sunil Shah:** So, roughly it is about, just about less than one-time sale, just to get a sense?

**Hiranand Savlani:** Yes, but enterprise value, we have paid 190. So, you get roughly 1.1 time kind of level.

**Moderator:** Thank you. Our next question is from Mahdhav Marda from Fidelity Investments. Please go ahead.

**Mahdhav Marda:** Sir, just I had one very quick question. The increase in crude prices, does that impact our adhesive business margins? Because the players in white adhesives do feel an impact on the margin, so does an existing portfolio get impacted? And as we move into white adhesives so it becomes a factor on our margins at all? How should we think about that?

**Hiranand Savlani:** Actually speaking, we are not much into the white glue. So, I do not think it is going to affect us in a big way. Because our presence into the coal business is negligible, I can say. So, that is

not going to affect. But overall scenario the chemical prices, raw material prices are high. So, that indirectly affect us also. But not to the extent what the white glue people will be affected.

**Mahdhav Marda:** So, basically and sir the other question was that based on channel checks, our products are selling at about 20%-25% discount as you trying to scale our distribution. Just trying to understand that at some point once the prices, our prices and the competitor prices get bridged over a period of time, our margins can be substantially higher compared to what they are doing right now. So, what are we missing, I mean why there is such a big margin differential?

**Hiranand Savlani:** See, we are in the beginning of the journey. We are at a very nascent state what the market size or maybe you can say market opportunity. You cannot expect that from the day one we will be at a 20% or 25% kind of EBITDA margin. We should not expect at all.

**Mahdhav Marda:** No sir, in fact I think your margins are pretty good.

**Hiranand Savlani:** Growing it, such a (+20%) rate and plus improving the margin itself is a big thing. So, I always humbly request all of you do not expect too much of things from the management. That it is known I am always telling that it is very easy to do things on Excel it is not easy to do the things in the real world. So, doing 17% margin on a new business where you are doing a beginning of the journey itself is a big thing. Even if 1% or 2% margin drop take place from hereon we are very comfortable with that also. As long as we are growing at 20%-30% run rate, we are always happy to grow business then only focusing margin, margin and margin.

**Mahdhav Marda:** No sir, actually sorry to cut you, my question is actually a bit reverse. I am saying that your earning 17% margins and competitors are just say about just 400-500 bps higher than you. And your prices are still at a substantial discount. So, once you grow in your margins improve, you can earn substantially higher than them. So, my question is actually, the exact reverse that our margins seem to be much healthier compared to them. Not actually worse off?

**Hiranand Savlani:** Let me tell you the competitor has reach at that level with lot of investments in branding in other ways so as we have to grow at those volumes and the levels we will also have to invest in our branding activities and other activities which will put pressures on margins and the new margins whichever we can gain from the market we will be needed to at least 2 proper branding activity. A lot of other activities and then you can gain the volumes which the others have gained. It is not an easy cakewalk for us to add volumes and then earn and it is not that the other guy will not understand that.

**Moderator:** Thank you. We have one more question from Hires Pathak from Goldman Sachs. Please go ahead.

**Hires Pathak:** Sir, what was the branding spends in adhesive business in FY18?

**Hiranand Savlani:** FY18 was very low maybe around 7 crores or so.

**Hires Pathak:** What is the budget for this year, sir?

- Hiranand Savlani:** This year we have not still freeze the budget because we were waiting for this ad campaign things to be finalized and then we will be working out the exact budget. But I am sure this year will be at least (+10) crores budget.
- Moderator:** Thank you. We have one more question from Akhil Kalluri from Franklin Templeton. Please go ahead.
- Akhil Kalluri:** Just one question on the piping side. Sir, till last year our entire commentary on the margins was whatever cost saving we have on backward integration we will pass on to the market to drive more growth. The focus will be on volume growth and not on margins. The commentary seems to be a bit different now. So, just wanted to understand the thought process here?
- Hiranand Savlani:** So, last time also we communicated that we will be passing on to maintain our volume. But if volumes are maintained and still there is a room available for the margin we always try to improve the margin. But our prime focus will be volume. We communicated like that way that initially we will be giving focus to the volume. But if the volumes are maintained and still we are getting the good margin, we will always try for the higher margins also.
- Akhil Kalluri:** So, is it fair to assume that despite of price hike we see no demand in elasticity, and taking further price hikes so we will be able to maintain our target of (+15%) volume growth in plumbing?
- Hiranand Savlani:** We will always try that, but it is again depend on the market condition because as of today there is no much pressure. But you do not know going forward coming quarter how the market is going to shape out. Based on that every time we have to change our things so, it is not statics kind of thing that we will be maintaining this way. It depends on the market condition.
- Akhil Kalluri:** And on the demand side sir, have you seen, so this times commentary was the demand environment seems to be much better now as against to a few quarters before. So, can you throw some light on where you see more traction on the demand side, plumbing specifically?
- Hiranand Savlani:** Plumbing is okay, I do not see any problem into the plumbing side and still you cannot say it is a robust demand. Ground reality is still weak, still construction activity is still weak. It is not that great but still we are able to maintain because of multiple region because of our reach because of our branding because of backward integration, pricing competitiveness has come back. So, all put together is helping replacement demand, all put together is helping us to maintain 15% kind of volume. If the genuinely market demand or maybe you can say construction activity will start picking up from here. Then it can help us more to grow volume faster but as of today I do not see there is a great kind of construction activity happening in the country. So, it depend how the construction shaping out in the coming quarter.
- Moderator:** Thank you very much. Since we have no further questions, I would now like to hand the conference over to Mr. Priyank Chandra for closing comments. Please go ahead.



**Priyank Chandra:** Yes, thank you everyone for joining on the call. And thank you, special thank you to the management for taking out time for this call. Thank you everyone.

**Hiranand Savlani:** Thank Priyank for your continuous support to Astral and thanks to all the investors who have participated.

**Sandeep Engineer:** Thank you, thanks everyone. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.