



“Astral Poly Technik Limited
Q2 FY2019 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Astral Poly Technik Limited Q2 FY2019 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder, all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Praveen Sahay from Edelweiss. Thank you and over to you Sir!

Praveen Sahay: Thank you operator. Good evening everyone and thank you for joining the earnings call of Astral Poly Technik Limited. On behalf of Edelweiss Broking, I would like to welcome the management team of Astral Poly Technik Limited to discuss the results and outlook post Q2 FY2019 earnings. We have with us Mr. Sandeep Engineer, Managing Director and Mr. Hiranand Savlani, Chief Financial Officer. I would now request Mr. Engineer for his opening remarks post which we can open the floor for Q&A. Over to you Sir!

Sandeep Engineer: Thank you and welcome you all to this concall of Q2 results. The Q2 results are with you and as you can see, the piping business Astral has done double digit growth in value. The volume growth has been there, but it is a little less than double digit because of lot of challenges we faced especially in the PVC part of the business.

The first thing was there was truck strike for at least 10 to 15 days, which hampered our business in the way of sales and volumes. Second was the PVC price drop that was there in the year that the price is dropping in October and that also hampered the sales and the growth of PVC to some extent and the biggest thing, which we corrected this quarter again was further the payment discipline was corrected to almost 100% level. We pushed all the distributors to move to channel finance or to pay upfront and most of the smaller distributors were converted into cash and carry model. So a lot of corrections were done in the last quarter on the payment cycles. Even in certain states Kerala and some other states the floods and rain monsoon also affected the sales to some extent.

The other thing which affected us to a very low extent, but to some extent was we were the first one to give price revision in CPVC due to the currency volatility and all the markets followed with this quarter and we implemented the price revision in the last quarter and we could stabilize that price. We could achieve the new pricing and then the market followed Astral, but looking to all these situations and the situation of the market and the economic situation, we have done much better. We have maintained our margins. We have maintained a growth rate. It has been given an indicator to the market and we have also seen that our new product lines have been launched, which have started doing good like Silencio the low noise drainage system. The fire sprinkler systems, we have got some good enquires and orders for that. We are also doing good with our channel drains, which we sell from Germany. We also have started doing... launched Pex last quarter for which we have got some good orders from the market.

So overall the situation looking to the situation we have done much better in our piping business. Also in CPVC, CPVC is looking very promising and growing for us with the new capacities and new plants coming up. Our plant at North is now full fledged operational near Jaipur at Ghiloth where also we have started making CPVC and CPVC is being sold in the Northern market from that plant and PVC products are also selling. Our expansion at Hosur is also underway and will be completed before this fiscal year. We will be also adding capacities in our Ahmedabad location especially in the injection moulding, we are getting good number of machines in injection moulding as we have got almost 250 new product lines, which will be given to the market in agriculture, PVC and other segments, 250 new products and new fittings will be added. Apart from that we are working to bring a complete range of valves from this year to next year both in plumbing and in industrial and we have already started getting moulds from abroad. The designs have been made from abroad and this valves will be launched shortly in the market in the next quarter.

We are also getting good response of our chambers especially the chambers, which we launched for the drainage systems and we are getting new machines this quarter and next quarter up to next quarter for making chambers in good capacity and higher dias also. We are getting injection moulding machine up to 1000 tonnes capacity clamping force capacity and we would be one of the few companies in India having huge injection moulding machines with injection moulding machines with high capacities to mould fitting or a product up to around 25 to 30 kg in one shot. So lots of things are moving and a lot of expansions are happening parallelly. With the addition of products, completion of capacities, completion of projects and also to see the market growth. We have opened a few depots also in North and central of India, and East we are working and this will also help us in the growth in the coming quarters and years and I would tell you that this quarter we are again back to good growth number in PVC and CPVC we are continuing the same growth in this quarter.

Coming to the Rex Piping Company, which we acquired double wall corrugated, we are working on establishing a lot of systems in the company right from accounts to warehousing to stocks to inventories to quality controls to production because Rex has been a privately owned company and when it joins a big group a lot of systems need to be implemented. It needs to implement a lot of systems and our team is working with Rex team to implement all these systems and we are sure that that will be completely integrated with Astral with all the systems before this fiscal year. A lot of work is happening in Rex on the system front from all ends. Rex has given a robust growth in this quarter in sales and the same will be continued in next other two quarters. We are sure that the same robust growth of Rex Products will be there in the next two quarters. We will be answering more about Rex as you have questions on it when we have question and answer session.

Coming to Resinova, Resinova is growing at 20%, which is a good growth and good response from all the product lines, which we have launched in the market. We have added a lot of product lines in Resinova for the wood side, for the waterproofing side, for the cyanoacrylates, for the silicones, epoxies, and every product is getting good response and good sales is coming and the brand is now

getting more and more awareness with the branding campaign run by Varun Dhawan and the spending, which we have done on the branding campaign is also helping us to bring the brand ahead as a very strong brand and to pose it as a very good brand in Astral portfolio. So Resinova is going excellently well especially in the growth side and also on the branding side also and the production and the new products, which have been added. Seal-It USA is coming back on track as you can see. topline growth is 41%, profitability has jumped, EBITDA is in double digit after many quarters. So it has shown a very, very positive growth with UK and US business now coming to normalcy, started getting profits, growing, the product is moving and Astral has acquired the Rescue Tape brand, which was owned a trading company as we are giving the product to a trading company who are selling it in the US market. Now the Rescue Tape brand is with Astral and the entire team of Rescue Tape, sales team has joined Astral, sorry it is Seal-It USA and helping us to grow the market and in a short time from now at least after five to six months, we will be introducing a lot of other products, which are made in the US market through the US arm. Moreover, we have received material of Rescue Tape in India and the launch has already been made in Indian market of the Rescue Tape. So overall to summarize, piping business as well as adhesive business have maintained its growth, have maintained its profitability and will keep maintaining its growth and profitability as the guidance given by us in the past and we would be sure that with all these challenges of the economy, with the challenges of the global markets, we would still keep maintaining our growth and margins in the coming quarters. Hiranand bhai will walk through the numbers and then we will take on your questions and answers shortly.

Hiranand Savlani:

Good evening everybody and welcome to the Astral conference call. I will take you through few numbers. Most of the numbers are in your hands, so I will not take much time and I will spend more time on the question and answer session, but quickly a few numbers I am going through. On a standalone basis Astral Pipe division has grown by 10%, 9.76% precisely in the topline and as usual every quarter we are communicating that now Astral is going to give more and more focus onto the margin side and which again it is reflected in this quarter also and that is the reason you can see the EBITDA growth is more than 27%, 27.35% on Q2 basis and if you see on a half yearly basis, the revenue has grown up by 12% and the EBITDA has grown up by 36%. On a consolidated basis if you see, then the topline growth is close to about 21.66% and on a half year basis, it has grown by 20% from Rs. 921 Crores to Rs. 1106 Crores so close to 20% growth and EBITDA growth if you see this quarter was close to 27% and on a half yearly basis, EBITDA growth is 40% so in spite of that a lot of write off and all these things taken place in Rex, the consolidated EBITDA has grown up by 40% compared to that the sale has grown by 20%, so we will keep continuously focusing onto the margin side. Mr. Sandeep Engineer in his initial remarks said that we are focusing more and more on the value-added products like lot of fittings are being added and lot of valves being added into our system, so that will keep helping us to grow our profitability.

Now coming to the subsidiary side, Resinova has grown a topline by 18.5% in this quarter. On a half year basis, it has grown up by close to 20.7%. EBITDA level if you see this quarter, EBITDA has

grown up by 11.4% mainly because of the ad campaign, which we are carrying out with Mr. Varun Dhawan. We have spent sizeable money into the branding side for ResiQuick and other products that is why EBITDA level has slightly dropped, but if you see the percentage terms, it is still maintained at 17.5% in Q2 and on a half yearly basis also it is also mentioned at the same level of 17.5%.

Now coming to the Seal-It side UK arm, UK has given one of the best growth in this quarter. The topline has grown up by 41% and EBITDA has jumped to 165% and on a half year basis if you see, the topline has grown up by 34.6% and the EBITDA has grown up by 124.4%. UK economy is still not growing that great. Generally it is growing at 1% to 1.5%, but still the Seal-It has shown a robust growth to us and coming quarter also, we are expecting reasonably higher growth because the way we are seeing the turnaround is happening in that company, we are very, very positive about that company's growth and we were continuously communicating that we are expecting that this company should at least give us the double digit EBITDA margin, which they have delivered in this quarter 10.3% EBITDA margin. So hopefully we are keeping fingers crossed that in the coming quarter also at least 10% kind of EBITDA should be maintained. There are high probabilities that it can cross that level also.

Coming to the Rex, Rex being a new acquisition as usual they have to follow the Astral system. They have to follow all the policies of Astral, so all the big four, which is auditing our company, we are trying to implement all the policies into Rex also. That is the reason lot of write off has taken place. Lot of inventory-related adjustment has taken place, so because of that this quarter the EBITDA margin was just Rs.90 lakh against the topline growth of Rs.93 Crores. This Rs.93 Crores is mainly effective from July 9, so in terms of growth if you see, the last quarter Rex had delivered 50% topline growth into the double wall corrugated category, so overall the growth was fantastic. EBITDA is low mainly because of write offs and all these things. We are of the view one or two quarters lot of these things will happen, but from the Q4 onwards, this company will be again back to normalcy and it will start giving us a reasonably good margin.

Now coming to the individual company side I will start with Astral and Resinova, then Seal-It and Rex. The piping business was passing through a lot of turbulence in Q2, which we normally do not see in the piping market because of lot of challenges were there, currently was highly volatile. In a particular quarter only 6% depreciation took place in currency, so that was one of the challenge, struck strike in the month of July, which Sandeep bhai has already mentioned, then the flood in Kerala in August, and then the polymer price were highly volatile. Due to all these things, we are first time seeing that it is a... month on month, it was a rollercoaster kind of a ride. July was very bad because of truck strike and August was fantastic for us. September again it was very low because everybody was expecting that the polymer price would drop and in 1 October 2018, Reliance dropped the price of PVC by 4%, so all the growth shifted to October. Again October is a robust. We have grown up close to about 23% in piping volumes. So it is very, very difficult time I can say that this kind of situation, we have never ever come across in the past that one month is negative, another

month is robust growth, another month is again negative, and another month is robust growth in volume. So these one or two factors we are seeing that now going to be stable because crude was running very high level. That is also coming down sharply, so we have to see how the market is going to be adjusted, but hopefully in again another couple of months market should stabilize and then again we will be able to predict the right number. Right now it is entirely difficult for us to predict the right growth in the coming quarter because of all these challenges happening in the market.

Now coming to the Resinova side, lot of challenges are there into that business also. Economy is also passing through a lot of turbulent times. Crude was very high, so lot of pressure on the raw material side. Also of course we have tried to pass on majority of that to the market and that is the reason, we are able to maintain 17% EBITDA. Also we spent around Rs.4.5 Crores to Rs.5 Crores on the Varun Dhawan campaign also in the Q2, so that also expenditure is being charged to the P&L, so because of all these things that EBITDA is maintained still it is maintained, so I can say it is a good number for us and topline is also maintained at 18.5%. Seal-It as Sandeep bhai mentioned that first time it has grown up robust. EBITDA has come back to the double digit and we are expecting that in the coming quarters also it should deliver as a good number.

Rex has done a fantastic job in the last quarter, grown up at 50% topline. EBITDA I already mentioned that because of certain things we have taken a lot of hit onto the write off, but overall if you see that the quarter was very good. Of course there was lot of ups and downs, but considering there is a lot of volatility in the market in front of all currency, crude, and polymer price, we have fairly done good and we are expecting that the major part of the fund, the normalcy will come back to the market and we will be able to deliver the growth of close to about 15% kind of level, which we have communicated earlier and we think this should not be the problem to our company to deliver that kind of growth. So now we are opening up the session for the question and answer. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Thanks for the opportunity. Sir my first question is on the working capital. We see a sharp improvement in the receivable days what you indicated towards channel financing however we look inventory days, it has moved up pretty sharply and payables also has declined, Sir can you please provide color over here?

Hiranand Savlani: Yes your observation is right that inventory is slightly more because I discussed that. Every market was expecting that there will be a drop in the polymer price, so in the month of September all the distributors started stopping the order. The said no we will wait for the correction and actually the correction took place so because of that all of a sudden the October growth was very robust, so close

to about 22% to 23% kind of volume growth. That is spillover. So we are of the view that by the year end this much level will not be there in the inventory side. Cable side also I do not think there is much drop, but overall it has maintained because some payment cycles are such that sometimes you have make the payments and currency volatility was there, so we were not taking that risk also, so we were making early payments also because of the currency. We were expecting that the currency may depreciate further, so we were doing some early payments also, but otherwise overall the payable cycles will not be changing much.

Ritesh Shah: Sir does this mean that based on your commentary on inventory this quarter had some contribution of inventory gains and the next quarter given you indicated Reliance has cut prices by 4% on 1 October 2018, there could be some hit on that of inventory?

Hiranand Savlani: I do not think so there will be much because there is a 3% to 4% price rise in the CPVC also from Q3 onwards. So here there is a drop in the price, so there will be no much effect onto the inventory level. Unless there is a substantial fault taking place in the coming months, then there may be slightly we have to take the hit, but as of today we do not think much hit will be there. In the last quarter also, there was not much gain into the inventory because the prices of the polymers were up and down, so I do not think there is any gain into the inventory side in the previous quarter also.

Ritesh Shah: That helps. I have two questions for Sandeep bhai. Sandeep bhai you indicated that we were the first ones to take a price increase on the CPVC side. This is good to hear? I just wanted your thoughts like whatever transition has happened in Southern India to one of our larger peers. Has it in any way benefited us here on the distributor's side or on the market share side or do we see some hence or are we doing something to get more market share over there?

Sandeep Engineer: Ashirvad change which has happened. At present, we are focusing on our business and our strengths. We do not see that. We want to go and do anything... disrupt anyone market and get in and so at present no nothing. As far as the market is concerned on the growth side and all, it is helping us in a great way through our channels, our distributors and our programs, we have started extensive programs on a lot of fronts connecting with the end users, connecting with the dealers and these are helping us to grow. It is helping us somewhere.

Ritesh Shah: Sandeep bhai two more questions. If you can provide some color on ResiQuick some number how the feedback has been from the market and it is difficult to track as with the business if you can help us with the number of distributors and dealers that we have, I think that will be of good help?

Sandeep Engineer: Give us one more quarter. We will give you some distribution and others. ResiQuick, the campaign is excellently well. The campaign has given us a good brand image and visibility, but to get into the base of numbers, we need two more quarters to come with something there.

- Ritesh Shah:** I have more questions. I will join back in the queue. Thanks.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah:** Thanks for the opportunity. Sir in terms of guidance what kind of growth guidance would you want to give individually on Resinova and Seal-It considering the fact that Seal-It has got significantly better and what kind of margins you would expect in Resinova and Seal-It going forward?
- Hiranand Savlani:** In terms of guidance, we do not want to give any particular guidance, but we can say that the range where we are normally working, we have given earlier also that adhesive business as a whole will be delivering 20% plus kind of growth and we will be able to generate margins of close to 15% to 17% kind of EBITDA level margin. As far as the pipe business is concerned, we are expecting at least 15% kind of minimum growth in the pipe side and there also we are expecting the margins of 15% EBITDA minimum. That is what we are working on right now.
- Nehal Shah:** Sure and Sir what would be the impact of CPVC price hike on margins?
- Hiranand Savlani:** We have given the price hike from 16 September 2018, so the real effect we will see in Q3 and now the rupee has also slightly started appreciating. Crude has started coming down, so we are having positive expectation, but keep the fingers crossed whether it is sustained or how it is going to work. We have to wait and watch only.
- Nehal Shah:** Do you think there is a likelihood of price cut coming because of softening of rupee as well as crude?
- Hiranand Savlani:** At least CPVC we do not see any price cut is expected because international level CPVC prices are stable, so I do not think. The rupee appreciation has just taken place in two, three days, so no manufacturer will quickly jump in and reduce the price because everybody's purchase is at a higher rupee, so we do not think that will happen quickly, but yes if it is sustained over a period of time then there will be... probability may be some drop, but will be finally anything.
- Nehal Shah:** My last question to Sandeep bhai is, Sandeep bhai any threat are we seeing with respect to Chinese CPVC coming into India and what kind of growth are they doing versus the branded players in CPVC business?
- Sandeep Engineer:** The Chinese if you see import data the last three quarter continuously their imports have dropped and dropped substantially. This was used by a lot of small players who have also been affected by the currency issues and lot of other issues on quality fronts and all and as far as the branded products are there, I do not see any threat from Chinese at present. Actually the branded products, the few branded companies are safe and are growing also, so I do not see any threat from the Chinese actually.
- Nehal Shah:** You do not see much threat coming from the Chinese?

- Sandeep Engineer:** No not at all.
- Nehal Shah:** Which was the case earlier probably a couple of years back?
- Sandeep Engineer:** But at present, it is not.
- Hiranand Savlani:** At the same time, Nehal coming out from the Lubrizol, we have dropped price also substantially. Now the game for price between the Chinese and other players is also filled up to some extent.
- Nehal Shah:** How much is the gap between the Chinese CPVC and...?
- Hiranand Savlani:** Sorry, we cannot discuss all these things.
- Nehal Shah:** Right thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.
- Sonali Salgaonkar:** Sir good evening and thank you for the opportunity. Sir my first question is with reference to the interest cost? Now I understand that because of the 6% INR depreciation that you just mentioned during the quarter, the fluctuations have gone up, which has led to higher interest cost, but I just wanted to understand your opinion as to going forward say in the coming two to three quarters what kind of an impact do you gauge from the currency and volatility in raw materials because last quarter also we saw despite crude rising up, we saw some kind of decoupling of PVC resin prices vis-à-vis crude, so your thoughts about the same Sir?
- Hiranand Savlani:** Your first question was relating to the interest. Yes the interest cost has slightly gone up for Astral. Two reasons, one we have done the acquisition of Rex, which we have done from our own funds, so because of that we were not sitting on a huge cash. So we have borrowed some money and because of that the interest cost has gone up. Secondly the overall interest rate has gone up in the market likely earlier we were borrowing at 7.2% to 7.3% in rupee terms. Now we are borrowing it may be 7.8% or may be 8% kind of, so that cost has also gone up.
- Regarding your question of this exchange, yes exchange fluctuation has hit us a lot in the first half. We have provided Rs.14 Crores at exchange loss in the first half because of sharp depreciation of rupee to the tune of 15%, so because of that Rs.14 Crores we have provided for the exchange loss, but out of Rs.14 Crores, Rs.7.2 Crores is MTM, so if the rupee will appreciate in the coming quarter, then there is high probability that we may get gain in the coming quarters. Going forward, we do not see there will be a jump into the interest cost in the coming quarter. On the contrary, we are expecting there will be a drop because every month we are getting cash flow because you can see the way business is growing and the way profitability is improving, we are getting cash, so we are going to

payback that debt. Even debt number also if you see that there is a slightly increase in the debt because of this acquisition mainly and secondly the inventory levels were comparatively little higher. So that will also come down in the coming quarter and secondly we will pay off the debt also and secondly, there was a high debt interest rate in the Rex. So Rex was borrowing from SBI at 11% working capital and 12.5% term loan, so we have paid off everything to SBI and now we have borrowed from our banker, which is giving us at around 7.9% to 7.8%. So all this will benefit you will see in the coming quarter. So from here on we do not see any rise in the interest cost. On the contrary, there will be a substantial drop into that cost.

Sonali Salgaonkar: Sure Sir this is helpful. Sir secondly one clarification in the pipes and you mentioned 15% growth is you referring to value or volume growth Sir?

Hiranand Savlani: I am referring to the value and volume both, but right now the value is high because of the crude and all these things were on the higher side because of that last quarter you are seeing that was more of the price-related growth and the volume related growth was low, but in the coming half, we are not expecting there will be a price growth, so whatever you see in the coming quarter that will be of a volume growth, so price and volume will remain same in the coming H2 I can say.

Sonali Salgaonkar: Sure Sir. Sir thirdly on the Rex you mentioned that the topline growth was 50% in Q2, which is a very, very encouraging number any color on what are the EBITDA margins of this and what kind of growth do you expect both in topline and margins going forward?

Hiranand Savlani: Normally Rex is working on 14% to 15% EBITDA margin, but in the last quarter because we said in the initial remark that we have to bring all the provisioning, all the valuation methods of inventories and all these things as per the accounting policies followed by Astral, so because of that we have to take a lot of write offs and all these things into the system, so because of that last quarter the EBITDA was hardly 2.1% only, so we are of the view that in another one quarter we will be stabilizing all the things and then onwards you will see again 14% to 15% kind of EBITDA into the Rex business. As far as the growth is concerned Rex is growing at a fastest pace, so we are expecting that coming two quarters will also be a reasonably high growth. So it is too difficult on one quarter basis I can give you the guidance of 40% to 50% or 30%, very difficult for us to give you the guidance, but we can say with confidence that the trajectory of growth is very high into that business because lot of orders are coming to us and lot of pending pipeline orders are with us, so considering all these things, we are expecting that Rex topline growth will be much, much faster than any of our other businesses.

Sonali Salgaonkar: Sure Sir and the consolidation will happen somewhere around the Q4 of this year?

Hiranand Savlani: No consolidation has already taken place. Whatever the number you are saying in the consolidation Rex number has already been consolidated.

- Sonali Salgaonkar:** Yes sure Sir. Sir my last question is how much was the price hike taken in CPVC in the last quarter?
- Hiranand Savlani:** We have taken in September 3% to 4% kind of price rise.
- Sonali Salgaonkar:** Sure. Sir that is it from my side. Thank you. This has been helpful.
- Moderator:** Thank you. The next question is from the line of Moulik Patel from Equirus Securities. Please go ahead.
- Moulik Patel:** A couple of questions. First is on this gross margin expansion, you mentioned that EBITDA growth was 27%, but if you look at the pipe EBIT which is around 23% and I understand from our previous discussion is that in standalone there is some element of the adhesive business also there, so if you can just give some color on that what could be the contribution of the adhesive business in the standalone number and whether the gross margin expansion how much is because of the product mix and how much is because of the inventory gain?
- Hiranand Savlani:** Coming to the first question of your gross margin, you can see after coming back from Lubrizol side and going into the backward integration consistently our gross margins are expanding and that was continued in the previous quarter also and we are of the view that now 14% to 15% trajectory, which was there earlier for EBITDA level margin now it is inching up towards the positive direction, so it is very difficult to say whether it will stabilize at 17% or 16%, but at least we can see that 15% should not be the problem now. So that is the benefit mainly because of the backward integration. Now whatever Sandeep bhai said in the initial remarks that the value-added products are getting added now shortly because a lot of new moulds are coming and a lot of new fittings are going to be launched in the market, lot of new valves are going to be launched in the market, which are normally comparatively higher margin in the fitting category, so we have to wait for that. Once all these fittings will be launched and all these valves will be launched then there are higher probability that the margin expansion will take place, but it is too early at this stage to quantify as to much it is going to give us the contribution because for any new fitting you cannot jump in and say that okay this much contribution will come, so we have to wait and watch that how it is going to and it will take few quarters. It is not going to be immediately from the next quarter, so we have to keep patient. We have to think for the long term so hopefully from the next year onward this contribution will start coming and we will get positive benefit out of that.
- Now the EBIT level you can see that because of this expansion into this Rajasthan plant and all these things, the depreciation has also gone up, so now in the coming quarter if the growth will be on the higher trajectory then it will be spelled out and the capital utilization will improve a lot so that is going to help us into the improvement into that side also and secondly forex loss was also there in the last quarter. One more thing, which we have done as part of consolidation that we are closing our Bengaluru and Coimbatore depot because of that we have to keep the higher inventory. We have to

incur lot of loading and unloading cost. We have to incur lot of freight element also. Now because of consolidation of everything at Hosur level and we have completed the premises now, so from December 1, both the depots will be closed. Coimbatore is already closed from 1 November 2018, so all the inventory from Coimbatore are moving to Hosur and next month, we are closing Bengaluru, so that is going to help us to improve our margins further, but again I am repeating it will not be on an immediate basis. We have to keep patient. We have to understand the market and all these things. Wherever the improvement is there, we will do improvement, but one side is further going to help us to improve our margins.

Moulik Patel: The last question was on that EBIT growth is 23% where the EBITDA growth you mentioned in the standalone is 27%, so there is some contribution of adhesive business into the standalone right? What is that contribution is approximately?

Hiranand Savlani: Looking to the size of Resinova that contribution of adhesive to Astral is very miniscule. It will not be that high also and the adhesive is normally selling 2.5% to 3% of the topline.

Moulik Patel: Of the standalone and I am talking about the sealant, which you said from the standalone Astral business?

Hiranand Savlani: That is what I am saying. It will not be that high also. It will be a very, very small portion.

Moulik Patel: Did you see any... and finding any pressure or the price increase in epoxy side in the previous two quarters because oil was going up just earlier talking from an oil perspective and not taking in the rupee depreciation, but was there a significant raw material inflation in the last two quarters because of oil moving up?

Hiranand Savlani: Yes are absolutely right. Your observation is right that there was a lot of pressure not a small pressure. There was a lot of pressure on us on the price rise from all the chemicals whether it is epoxy, whether it is silicone, or whether it is cyano all were going up, so there was double loss to us not only on the price rise front, but on the depreciation of rupee also. So now coming quarter we are easing that lot of easing is taking place at the international pricing of the chemical. It can be epoxy also. It can be other products also slowly and gradually they are coming down and on the other side, rupee have also started depreciation, but keep the fingers crossed it is an initial stage, so we do not want to jump it and say again that with the next quarter onward margin will shoot up or something like that. No, we have to wait and watch. We have to understand the scenario and slowly and gradually once the new material will come into the system then only it is going to help us to improve the margin.

Moulik Patel: Sir now what kind of a price increase we have taken in adhesive segment in Resinova any rough cut approximate?

- Hiranand Savlani:** There are so many products into adhesive. Every category we have taken the price rise. Some categories we have taken 2%, some categories 5%, and some categories even 10% also, so every category different price rise has been taken place, based on the movement of raw material. Some are imported where we have taken the higher price rise and some are local where the price rise was only to the tune of raw material price. Here there was a double hit because of the price rise as well as the currency depreciation, so there imported item we have taken a more price rise, so every category has a different price rise.
- Moulik Patel:** Got it. Thank you Hiranand bhai.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Thanks for the opportunity Sir. Sir just wanted to understand in terms of Rex consolidation, we have done a 51% consolidation now is it?
- Hiranand Savlani:** No we have taken a 100%, but effective from July 9. Q1, we have not consolidated.
- Abhishek Ghosh:** Yes whatever Rs. 43.6 Crores number you have given for Rex that is the amount to that extent our revenues are higher in this current quarter right?
- Hiranand Savlani:** Correct. Absolutely and that Rs.43 Crores is from 9 July 2018 till 30 September 2018.
- Abhishek Ghosh:** Correct and so if I have to see a like-to-like growth, I have to net off that both from revenue and EBITDA and then see the growth?
- Hiranand Savlani:** Yes correct.
- Abhishek Ghosh:** Sir just one more thing, our other expenses also seems to have gone up pretty sharply at almost about 34% on a Y-o-Y basis. Is it this is something to do with Rex or how should we look at it?
- Hiranand Savlani:** It is a combination of all like there was a one off item of Rs.2 Crores to Rs.2.5 Crores, which Astral has taken a hit for acquisition cost because we have paid to the banker and all so that hit we have taken into the other expense side, so the was one of the kind of things. Secondly there was the Varun Dhawan campaign still going in this quarter also, so there also we have taken a sizeable expenditure into that side also even Rex also so all put together this effect is there, but this may not may be repeated in every quarter.
- Abhishek Ghosh:** That should normalize the other expenses element?
- Hiranand Savlani:** It will be normalized over the coming quarters.

- Abhishek Ghosh:** Fair and Sir just one more thing in terms of the dilution of shares that will again be reflective at the end of FY2019 is it?
- Hiranand Savlani:** No it has already because on a notional basis, we have considered this much of shares going to be allocated to the Rex promoter so to that extent we have reduced the EPS and that is what is the note we have put into our numbers also if you go through our press release, there also we have said that we will consider that to an extent EPS being reduced. Actually merger will take place in the month of February or March, but so far as the accounting effect is there, it is already being given from the Q2 onwards.
- Abhishek Ghosh:** I read that in the press release, but some of the share capital does not reflect that in terms of the number, but anyways I will take that offline?
- Hiranand Savlani:** We have not allotted officially, but for the calculation purpose notional, we have considered, so actually allotment has not taken place that is why it has not been given. That is why it is put by way of note.
- Abhishek Ghosh:** Dilated EPC is already reflecting that number?
- Hiranand Savlani:** Yes.
- Abhishek Ghosh:** Sir if you could lastly just help us understand in adhesives also whenever the epoxy prices are moving up and the crude prices are moving up, it is on an independent basis that we are taking the decisions or we are waiting for the market leader to kind of and then we follow how does it work there?
- Hiranand Savlani:** No in the market if you see the other guys are much bigger than Astral. So we cannot compare with them. Normally they are always ahead of us. So we do not see that by increasing price we have to wait for somebody, so normally whenever there is a price rise, we pass on because still we are cheaper than the others.
- Abhishek Ghosh:** Exactly whereas coming now with crude prices have corrected so sharply the followup for that would also be the raw material prices for adhesives come down, so it will be a stance then we would be proactive in kind of reducing that and passing on the benefit to the consumers or would we wait for the market leaders to kind of take that action is what my point?
- Hiranand Savlani:** We have to wait because this correction of crude has taken place in just one month 22% to 23% kind of correction has taken place in just one month in October, so we have to see where it is going to stabilize and secondly the new material will come with a late effect because today crude has come down so no manufacture is going to reduce the price from today onwards, so everything will take place with the late effect, so we have to see how the suppliers are going to react because they must be

sitting on some inventory like we are sitting on some inventory. So we have to wait and watch players are working on that side from the supplier side. Based on ,that we will work out strategy.

Abhishek Ghosh: Sir any change in polymer prices in the month of November?

Hiranand Savlani: No. So far there is no change.

Abhishek Ghosh: The last change was in the first week of October, is it?

Hiranand Savlani: Correct.

Abhishek Ghosh: Just one more thing in terms of what is the overall capex that we will do for the current year?

Hiranand Savlani: I think FY2019 and FY2020 we are targeting to put around Rs.150 Crores for two years 2019 and 2020. So after that there will be a pause for at least a couple of years, will be a very, very light capex because then we will be having close to about 250000 metric tonne capacity ready for us. So then we will put a hold and then you will see that the utilization will improve sharply and even in my last concall also, we communicated that whatever this number you want to see the real number of Astral that will come in FY2020 because then all the ROC and all with start shooting up, so then the capex cycle will be over and there will be a lot of free cash flow with us.

Abhishek Ghosh: That is helpful and Sir just last question from my side is there any market share gains that we have seen either from organized or unorganized players just to understand what is the overall demand growth for the industry as a whole?

Hiranand Savlani: The overall demand is still sluggish. We cannot say that there is a robust demand in the market, but last quarter was highly turbulent, which initially we said in our remarks that it is very difficult to understand the market to be very frank because so many variables are working. Sometimes crude is going up, sometimes crude is going down, sometimes currency is going up, sometimes currency is going down. So it is very difficult to understand the market condition. Once things are settled down then you can do some kind of right predication. At this stage, it is very, very difficult to predict. Like I told you that September was very weak and then all of a sudden October is very robust, so it is a difficult time for the industry, but I think it will settle down in may be in the coming few months it will be stable and then it will be easy for us to predict about the growth of our company or may be for the industry. We can do some estimate, but in this kind of environment it is really difficult.

Abhishek Ghosh: Thank you so much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Aasim Bharde from IDFC Securities. Please go ahead.

- Aasim Bharde:** Just one question this Rs.150 Crores capex figure you just mentioned, this is purely for the pipes business right and not for the adhesives as well right?
- Hiranand Savlani:** Yes majority of pipes, because out that around Rs.40 Crores or so we are going to put the capex for Rex also.
- Aasim Bharde:** This is part of the Rs. 150 Crores?
- Hiranand Savlani:** Yes. We have already ordered the machine. We are expecting that machine to come down in Q4, so then by year end, we will be able to complete the capex cycle or may be some capex we are going to do next year also mainly because of the east plant, but still we are not clear about that side, so once everything will be finalized, we will tell.
- Aasim Bharde:** Sir in this Rs.150 Crores for FY2019 and FY2020 is most of the amount budgetted for FY2020 or...?
- Hiranand Savlani:** Major amount will come in FY2019 and that too in the H2. H1 I do not think it is much may be around Rs.50 Crores to Rs.60 Crores and the H2, it will be more because all the Rex machines will come in Q4. At that time, the real capex will come. At that time, Hosur will be ready for operation because Hosur building and everything is ready, so therefore we are already started moving as I said that Coimbatore we are closed. Now we are closing the Bengaluru. Then now the new machines will start coming up from this month onwards November onwards so hopefully by December everything will be operational and Q4 is always peak in our industry so by that time Q4 demand will come, we will be ready with the additional capacity in South also.
- Aasim Bharde:** Just to understand this one last thing this Rs.50 Crores to Rs.60 Crores that you have spent so far in H1 that is excluding Rex right the acquisition cost for Rex?
- Hiranand Savlani:** Correct.
- Aasim Bharde:** For Rex it will be an additional Rs.150 Crores?
- Hiranand Savlani:** No, including Rex Rs.40 Crores.
- Aasim Bharde:** Just to cycle back to this in H1 you have done Rs.50 Crores of capex right?
- Hiranand Savlani:** That is including the Rex because Rex we have done capex of close to about Rs.7 Crores also.
- Aasim Bharde:** Sir thanks that is it from my side.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from Investec Capital. Please go ahead.

Chintan Shah: Thanks for the opportunity. Sir my first question is on Rex, you indicated that there is a provisioning for the quarter? Is it possible if you can quantify it and what are the normalized margins over here? I think you indicated 14% to 15% is that correct?

Hiranand Savlani: I think you have to wait for one or two quarters once we will stabilize everything because any acquisition like in Resinova also you have seen that the first year performance was not great. So here also... even in our previous call we said that do not keep too much of expectation at the start of the acquisition. So one or two quarters, we want to stabilize the things and then after all the Astral synergy will join and then you will see that the growth will be there and the margins will be there. So we request all the investor to wait one or two quarters and then everything will stabilize. We are going to implement SAP into the Rex also so that will be ready by March we are expecting that we will go live from April 1, so all these things are happening right now. Then only the real things will come and still we are also understanding the business. We are not expert into that business to be very frank, so let us give some time to us stabilize the thing and once it will be sync with Astral then the real number and the projections and then the guidelines everything will come to the card, but as of today whatever you have known I may be having little bit more knowledge that is all, so be patient.

Chintan Shah: Sir I am just trying to understand if you can give a one-time number which was there because if one looks at consolidated minus standalone number and then if one looks at the other expenses over here, the increase is hardly from Rs.17 Crores to Rs.27 Crores. So if the one off was only Rs.10 Crores over there if one assigns entirely to you and Rex it does not show up margins at 14% to 15%?

Hiranand Savlani: 14% to 15% is the normal margin in Rex. This quarter it is 2.1% EBITDA. We have already given in the press release.

Chintan Shah: Yes I noted that and Sir basically on the working capital days at Rex you indicated that it has been consolidated and what we see on the receivable side it has come down significantly so should one assume that you are already rectified the working capital cycle at Rex, which was I think upwards of 110 days?

Hiranand Savlani: Still correction is required because right now still inventory levels are high. We have to control that also, which you can see in Q3 and Q4, so you cannot say that this is the right working capital. We are going to improve a lot in the Q3 and Q4.

Chintan Shah: Sir you indicated that there could be further inventory write offs, so why is it that we have not taken it all on one shot right now itself?

Hiranand Savlani: No I have never said that it will be a further write off in the inventory side. We say that we are understanding all the accounts and everything, so there may be a small plus and minus can come in Q3 also, so as of today I do not know what will be the further write offs in the Q3, but maybe

possibility, so that is why we said that wait for one or two more quarters let the things settle down everything and then onwards we will be able to guide that what will be the realistic margin and what are the sustainable margin into the Rex business.

Chintan Shah: Sir just on the adhesives is it possible if you quantify gross margins and EBITDA margins the reason I am asking is you indicated that Varun Dhawan related cost was Rs.4.5 Crores to Rs.5 Crores in the quarter, which implies the margin over there was 21.7% and this is in a scenario where in crude related raw material prices were increasing if you can help us understand? You also guided for the margins so how should we look at this business?

Hiranand Savlani: We said that adhesive business also the EBITDA margins will be in the range of between 15% to 17%, so that you can consider in your projections.

Chintan Shah: Sir it looks very conservative again for you have been reporting recently?

Hiranand Savlani: I am repeatedly saying this time is not good for the industry. Industry is passing through a lot of ups and down. Under that circumstances at least I am not in a position to work out exactly what will be the number because it is difficult to project. Even everyday currency is fluctuating, everyday crude is fluctuating, and everyday things are changing, so it is very, very difficult. It is always good to be conservative.

Chintan Shah: Sir I just have two questions for Sandeep bhai, one is on the East expansion any update and secondly we had earlier indicated on new product launches specifically silicone tape and some additional products on the waterproofing solutions, which were expected, any timeline and any updates over here?

Sandeep Engineer: The silicone tapes were the new products in the adhesive are already launched and we have already launched the silicone tape. We have already launched the waterproofing products also. We have full-fledged launched the wood adhesive also now with a new brand and a new branding campaign. So I think we have launched all the products, which we have told in the last few concalls and the first point I did not listen properly what did you say?

Chintan Shah: Sir silicone tape has been launched under what brand?

Sandeep Engineer: Same the Rescue Tape brand.

Chintan Shah: Sir it is available in the market as well?

Sandeep Engineer: It is slowly going. We just started distributing. I think maybe in the next month you will get it in the market.

- Chintan Shah:** Sir the earlier question was on East expansion, I think it has taken a back foot on back of Rex?
- Sandeep Engineer:** East at present we have put the thing on hold. We will take it up after looking at the economic scenario in the next five to six months. Finishing all the present expansion and things. We also launched a few new products in the piping business. Rex I think if from tomorrow the ACETECH is starting in Mumbai. If somebody wants to visit and see all our product lines both in adhesives and in plastics means pipe segments business you are welcome to visit our booth to go through all the product lines, which are being launched in the market, available, new product lines and the existing ones. Everything is there at the booth.
- Hiranand Savlani:** I think that will be the good opportunity for every investor to go and visit the ACETECH booth from Astral where most of the products are being put on display and one of the big store we have taken over there, so you are all welcome over.
- Sandeep Engineer:** I am there tomorrow, but basically please let me do business tomorrow.
- Chintan Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thanks for the opportunity. Just a clarification you said roughly about Rs.150 Crores in FY2019-FY2020 put together is it including the maintenance capex or maintenance capex is over and above this?
- Hiranand Savlani:** Maintenance capex normally we charged to the P&L, so that will not be falling under the capex. We are charging as a...?
- Achal Lohade:** That is replace and maintenance?
- Hiranand Savlani:** Yes it is regular maintenance so that is not covering under this.
- Achal Lohade:** I understood and of the total Rs.150 Crores would it be possible to get some idea as to how much will be the PVC, CPVC and DWD?
- Hiranand Savlani:** No because it is a fungible things because machines of PVC and CPVC are common fittings and machines are common, so it is very difficult to identify how much. I can say that Rs.35 Crores kind of and Rs.40 Crores kind of Rex products are there, so that I can identify, but other than that for Astral, it is a common capex.
- Achal Lohade:** You are saying basically the capacities are flexible. They can make PVC as well as CPVC?

- Hiranand Savlani:** Yes because of CPVC machines can make PVC also.
- Achal Lohade:** I understood. Great. I think that is about it. Thank you so much.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.
- Sandeep Engineer:** Thank you everyone and thanks for joining the concall. Again we invite you if you want to go through all the product line you can visit Astral Group at ACETECH exhibition, which is starting from tomorrow again at Gurgaon and we will come back to you again after one more quarter with hard work. Thank you everyone.
- Hiranand Savlani:** Thank you everybody. Since we have the kept concall at a very short notice after the post results so many people might not have gone through the number in detail. So if anyone has question you can dial in directly to me anytime, I will be replying to your questions. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Edelweiss Broking Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.