



# “Astral Poly Technik Limited Earnings Conference Call”

**November 18, 2016**





*Astral Poly Technik Limited  
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**MANAGEMENT: MR. SANDEEP ENGINEER – MANAGING DIRECTOR**

**MR. HIRANAND SAVLANI – CHIEF FINANCIAL OFFICER**

**MODERATOR: MR. NITIN BHASIN – AMBIT CAPITAL PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Astral Poly Technik Limited earnings conference call, hosted by Ambit Capital. 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 '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin from Ambit. Thank you and over to you, sir.

**Nitin Bhasin:** Thank you. Folks, good afternoon. We have today with us Astral Senior Management, Mr. Sandeep Engineer as well as Mr. Savlani. They will take us through the results. But before that I would like to congratulate them for a good set of numbers. The margins especially in the adhesive business came really, really impressive as compared to what we had seen when the company was acquired. Sir over to you, would love to hear your thoughts upon the performance and the demand going forward.

**Sandeep Engineer:** Hello, everyone. With me is Mr. Hiranand Savlani, our CFO. So let me just take you through the two businesses, one is the pipe and the second one is the adhesives. And then Hiranand will take you through the numbers before we address your questions.

Last con-call which we did after the first quarter results, there were lot of questions because we had just changed the CPVC source and we had gone to launch our own product line CPVC Pro. But the results are in front of you. We have successfully been able to launch the product, successfully able to sell the product and successfully having people accept the product. The product was made with lot of efforts from our team who worked day and night to put up the backward integration facility of compounding and then made the final product, CPVC Pro.

CPVC Pro was launched to take care of the hot and cold water plumbing system. From the month of August, first week of August we launched the product and it started going in the market. And now we are full-fledged marketing our brand CPVC Pro in entire India and exports. The market has been expanding, growing, the reach is increasing, the network is growing, the distribution is growing. So, we have a successful launch and integration of the product lines from our old product to our own product line of CPVC Pro.

The capacities are there, we are adding capacities in CPVC in the south, Hosur, and in Ahmadabad, Hiranand will take you through the capacity and the new addition also. We are also expanding our capacities in the PVC segment in Hosur and Ahmadabad plants. PVC has been also doing excellently well for us, PVC range is growing, the agri range is growing, the SWR or the drainage range is growing, we have launched a new product line in PVC drainage also with a different sealing system which has also been very well accepted in the market. We also have started our own PP in mineral filled pipes which is also very well accepted in the market and

which is also equally growing compared to what we are selling formally by importing from Europe.

So integrating all the products, the CPVC new product line, the PVC product line, the PP mineral product line, the chambers as well as the products for the electrical nodes have given excellent results in first six months on the growth, the numbers, the volumes and also we have improved our margins in the last quarter because of the change in the CPVC source and going for backward integration.

The things are very bullish on the market side, except the scenarios that have changed which will have some effect. We will discuss this through the con-call. The market is growing, expanding, projects are growing and we see a very good future growth and incubation of the product lines in CPVC for Astral in the coming years. We are also working on the other product lines of CPVC which will be shortly launched. The formulations are being worked around, the approvals are being worked around and the products are under testing. They are thoroughly tested and certified. We will be launching the other applications of CPVC in the market in the near future.

The plant which we were going to build near Neemrana we have started the work. We are hopeful that by next 8-10 months we will be able to start the plant there. We have got the approvals for construction at the Hosur plant which was long pending in the process, almost a year the process was going on for the approvals. We have got the approvals for Hosur, we have started the construction of expanding the Hosur facility. By next 6-8 months the Hosur facility will also be expanding its capacity and will be having good capacity expansion. And at the same time we will be also having fitting operation at the Hosur facility in the south to make the fast-moving fittings at Hosur.

For the expansions, we will be having our own power substations at both plants in Ahmedabad, Santej and Dholka. We are also getting the approval to have our own substation at Hosur which will permanently solve the issue of power for us at the Hosur plant. So, there is a major expansion going on, there is a major decision making going on, we are getting all the needed approvals, we are getting all the needed requirements of power and other government approvals needed for expansion. So, the pipe business is growing, it is bullish and it has a great future going ahead, both with PVC, CPVC, PP and we have resented the order of double-wall corrugating machine. So by the next year in April, we will have our own double-wall corrugating pipe for drainage and sewage application from 150mm ideally to 600mm. That would be a major leap of expansion which will also help us to sell our chambers which we make in PP in a big way.

Coming to the adhesive business. Our Ahmedabad plant where the work was going on since long is almost complete, we have started adding or manufacturing products one by one. In the next 3-4 months, we will have the entire range manufactured in Ahmedabad which we are making in Kanpur with added capacity, improved quality, packaging and supplies. We are also adding a huge range of products in the construction segment, especially water-proofing, needed for the

cementation mixers. So, all these products will also add to the bouquet of the product line in the adhesive business.

The adhesive business has been doing very well for us even with constraints in capacity at present at Kanpur. We are upgrading the Kanpur facility and our first upgradation of the safety standards has been completed, almost the capacity where we had bottlenecks of packaging is addressed one by one. The plants are totally changed in the way it was functioning before we acquired and how they function after two years of this acquisition. With this, the adhesive business is on a path of growth, expansion and adding new products. The market has very well accepted the branding of adhesive, Astral Adhesives and Astral Pipes, and we are integrating the whole business as Astral Pipe & Astral Adhesives. So, the mileage which we will get as an Astral brand which we are getting in the piping business will also be greatly extended to the adhesive business. The future looks very bright and promising in this business. The numbers are there in front of you and we will be discussing more on that.

The UK has been growing. The UK has a continuous growth but the currency effect which Hiranand will discuss more in detail has affected the operations and we will take you through those numbers too. The US is a very recent acquisition, we have to do a lot of corrections there on the plant side, on the new machines needed and we are doing the right thing as needed in the US operations and I think that real results will be seen in the last quarter, after January. There will be very promising results from the US operation too.

So, just briefing you on both the pipe and the adhesive business, let me just pass it to Mr. Hiranand Savlani, our CFO to take you through some numbers and details and then we will answer your questions. Thank you, everyone.

**Hiranand Savlani:**

Good afternoon, everybody. I will take you through the standalone numbers first in adhesive and then the consolidated numbers. I think numbers are with you, so I am just quickly finishing that so that we can give more time to the question-and-answer session.

So, the sales in piping division have increased from Rs305 crore to Rs334 crore in Q2 which has registered a value growth of 9.54%. Against that, the volume growth has increased from 17,856 metric tonne to 20,522 metric tonne, so it is close to about 15% volume growth. EBITDA, last year, was around 13.66%, around Rs41.7 crore which has increased to Rs42.6 crore at 12.75%. Compared to last year there is a drop of about 80-90bps, mainly the reason you all know that we exited from our old brand Flow Guard and we have now entered into our CPVC Pro. So, because of that we have incurred close to about Rs8-9 crore loss in EBITDA because we have to reduce the price and sell into the market. So, that is a main reason for drop into the EBITDA. If you see PAT number, it has increased from Rs14.9 crore to Rs21.5 crore, so it has registered a 44.3% growth at the PAT level in Q2.

Now coming to the adhesive side. Adhesive business has grown in the Q2 from Rs98.5 crore to Rs111.8 crore, so it registered a 13.5% value growth. Volume is very difficult to give because

some items are in cc, some are in metric tonne, some are in liquid form. So, we are not sharing the volume numbers for that. Similarly, if you can see that EBITDA has grown from Rs10.4 crore to Rs15.6 crore, the top-line growth was 13.5% against that the EBITDA growth was 50%. Within this also the UK operation had a little bit setback in the previous quarter because of the Brexit effect. So, the price rise has not taken place in the UK, but from October onwards we have increased the price, so now the EBITDA growth in the UK will also improve. But in spite of that, overall, if you can see that compared to last year, similar quarter, the EBITDA percentage was 10.56% which has increased to 13.95% and that too also after absorbing all the branding cost of Mr. Salman Khan and exhibitions and all. Earlier, we were not participating in exhibition, but now in adhesive also we have started participation in the exhibition.

So on a consolidated basis if we see, then the sales has increased from Rs396 crore to Rs436 crore, which has registered 10.2% value growth, and in EBITDA it has increased from Rs52.2 crore to Rs56.5 crore. At the PAT level, it has increased from Rs21.3 crore to Rs30.1 crore which registered close to about 41.3% growth.

So with this number, I want to also give you some highlights on the other side of the business. We are extremely sorry that we could not communicate it in our press release the number of CPVC and PVC ratio which we are usually communicating in press release, but my mistake this was left out. So, the ratio of CPVC was 52% and PVC was 48%. We have maintained our ratio in spite of taking drop in CPVC price. We have taken a rise in the value, 52:48. So, indirectly the volume was higher in CPVC compared to the PVC. We are not sharing all the individual numbers of PVC, CPVC because of the confidentiality.

Now, coming to the adhesive side of the business. As Mr. Engineer said that the new plant had already started operation. First phase of operation is over in October where we already started producing the epoxy product like Bondtite and all in the month of October onwards. In November, we are going to add few more products and in December and January more products will be added. The new products in December, we are targeting at all powder products like tiles adhesive, tiles ground waterproofing and all this stuff. With silicon, first time, we have started compounding in-house which earlier we used to import everything, now we have started our own compounding operation which is going to help us in the growth of the margins also. Similarly, in January we are going to start the PVA and the construction chemical. So, all sizable range of products will be completed in the coming next 2-3 months. So, by January end we are targeting to launch all the products.

With this launch a lot of advantage will be there, the biggest advantage will be that additional product will be available to the market. So, it is going to improve the value growth for the company and it will be near to the market, because this plant is in west, it will be near to the market. So that is also going to help the market. The logistic advantage is going to help to improve the margins of the company.

The UK, as Mr. Engineer has already briefed that because of the Brexit the value growth has gone away due to this conversion from GBP to Rupee, otherwise on a constant-currency level they are growing. The US operation, we are just now shifting from Miami to North Carolina, so that plant will be operational in January full fledge and we have already ordered one machine for that product also in the USA. So, after the installation of that machine in January, the UK will start importing the product from the USA. Similarly, India will also start importing the product from the US operation. So, that business is going to grow at a rapid pace. And not only that, the margins are very, very high into those products. So, we will be updating you once this operation will start. Maybe in the last quarter we will be able to give you some guidance into that side.

Now, I am opening up this session for question-and-answer.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Atul Mehra from Motilal Oswal Asset Management Company. Please go ahead.

**Atul Mehra:** Sandeep, firstly, if you could talk about demonetisation and now it stands currently for our industry and how do we see the impact in the near term and in the medium term?

**Sandeep Engineer:** Basically, I am in touch with my market and our sales for last month was good and this month till date the flow of order is as regularised as we used to get. But there is a slowdown, there will be a slowdown. For the organised players, like I was talking to many distributors around India and I am in touch with them. For organised players, especially the bigger players and the bigger brands, they said the effect would be there but not to the tune which the smaller, the localised players who were selling in the market with undue advantages which they were taking. They say now the dealers or the customers who were taking this undue advantage actually want the material from these organised players. I think there would be a little slowdown for a few weeks which looks like that and then there would be a demand for a brand and a regular supplier. I think this is 2-3 months' pain, but the future is very good, future is very bright for players like us. There will be a lot of spending coming on infrastructure and housing and I think these few months we have to work hard, we have to take every project, we have to be aggressive, we have to take some steps on credit, maybe if the cycle is closed we have to support the system or the good buyers which we have already started where need be. I think overall the scenario is tough, I cannot say that if the whole country talks one way and I talk the other way; this is not acceptable. The hit for a good supplier and a good brand would not be to the tune which a local or a small person will be affected.

**Atul Mehra:** And sir, in terms of given there is an obviously on the construction side things could be affected, so at least if you were to look at second half for us, so we would be expecting say flattish kind of growth now that this event has happened or we maintain that we would continue to do well because of the initiatives we have taken now in business?

**Sandeep Engineer:** See, there can be a flat growth or there can be the growth which we have achieved in the first two quarters, but all this will be exactly known after a few weeks only. We cannot make any predictions but we cannot even leave the optimism, we cannot give away our team, you are okay so now we are accepting this. Here we say we want growth because if we stop that push or if we just say that we accept then the market hit is there, the market will bear to what happens but we are pushing for growth, we are not compromising that if everyone is sitting so let us also go and sit, it cannot work that way.

**Atul Mehra:** And sir in terms of, given that we made this transition around mid-October, now that we have more like, before even demonetisation happened how has the response been like because I believe we took a price cut of 7-8% and competitors also like Ashirwad took a price cut as well. So, how has been the overall response and overall market activity in terms of the new arrangement with Sekisui?

**Sandeep Engineer:** Actually, once we launched in the month of August we were not holding huge inventories, so our major product sales we had already started a few days after the launch itself in the plumbing sector. By the time we finished the obligatory times we had sold a good amount of material in the market, in the last month of last quarter also, especially the pipes. The acceptance is very good, there are no questions around that, we have taken care of the quality and the approvals, as you know we have NSF approval, ISI approval and we have UPC 1 approval, so we have taken care of every aspect in launching this product. Taken an aggressive branding campaign which is going on and that also is going to go on in the March. We have dropped the price, which was the need of the market, it is not that we had to drop and Ashirwad had to drop, we had to drop the price, action was needed. Traction has been accepted, established, prices have been established, the quality and the quantity, the stocks have been built up. So, I think the transition which happened was a challenge, everybody was concerned and I myself was concerned because it is not an easy step for a company. It has been smooth, we have to still not be over optimistic about anything, we are in touch with the market, we are working hard and we will keep working hard.

**Atul Mehra:** Sir, secondly in terms of adhesives business, I happened to visit the Acetech stall, it was very impressive. So what I could see is in terms of a lot of pre-branding happening on the waterproofing portfolio and the portfolio being pretty large as such, but in terms of the entire portfolio the full range of portfolio will be now available from January, right? So right from waterproofing to PVA, etc?

**Sandeep Engineer:** In January, yes. By January you will have the full portfolio, we will have a good capacity of PVA which is going to come up, we will have full range of waterproofing chemicals, we will also have the cement mixtures, so there will be a huge capacity and product addition coming from January.

**Atul Mehra:** And the entire sales potential after this capacity is on stream post January, what would be the ballpark sales potential of the new capacity and overall adhesives portfolio?



- Sandeep Engineer:** I think what we are predicting or the growth we are having at present would be much better in numbers and figures. The sales potential is already there, there is a huge gap of these products in the market.
- Atul Mehra:** No, I am saying higher capacity, in terms of the new capacity that we will have on-stream from January. So, on a full-year basis in FY18, the sales potential if we work at full capacity hypothetically, what will be the sales potential of the adhesives and waterproofing?
- Sandeep Engineer:** If we consider all the three plants of adhesive, then we can reach up to Rs600 crore. We are practically doubling the capacity.
- Atul Mehra:** This Rs600 crore is including in terms of the solvent cement or excluding?
- Sandeep Engineer:** For all put together.
- Atul Mehra:** And just one final question in terms of the waterproofing business. So our peer in terms of the market leader over here, recently they have gone about going for a more service-oriented model in the form of Dr. Fixit and they are taking up the projects on their own and with guarantee of 10 and 20 years in some cases. So, are we also looking at some of those models or are we just focused on the product sales at this point in time?
- Sandeep Engineer:** This point of time only product sales, we will still have to consolidate ourselves, we still have to build the capacity, still have to standardise, improve R&D for at least 1-1.5 years, and then we will see how we have to change our model.
- Moderator:** Thank you. We have the next question from the line of Basudev Banerjee from Antique Finance. Please go ahead.
- Basudev Banerjee:** A few questions. As you said that there was an impact of Rs8 crore to Rs9 crore at EBITDA level for the piping business, so can you state that which line level format cost or other expense cost one should look at? Because your contribution this quarter is like a three-quarter high.
- Hiranand Savlani:** If you see some effect is there at the RMC level and some effect has been taken place into the Sales, because discount and all is falling under Sales.
- Basudev Banerjee:** So, broadly despite that other expense has been around Rs40-42 crore mark for last five quarters you are still back to only that level?
- Sandeep Engineer:** Yes.
- Basudev Banerjee:** And secondly sir, if I see your adhesive business, as you rightly said the margins have improved considerably. But despite that if I see your revenue for adhesive sequentially, it broadly was flattish. So, first of all why revenue did not grow even sequentially? And secondly, was it

primarily because of some gross margin uptake or some mix improvement, because scale cannot be the reason as revenue was flat.

**Sandeep Engineer:** No, basically if you see revenue is not flat. If you see Q2 versus Q2 previous year, revenue has increased by 13.5%.

**Basudev Banerjee:** Yes, I am saying sequentially sir.

**Sandeep Engineer:** Yes, sequentially because of the seasonality and all will be there, so that cannot be the correct way to compare.

**Basudev Banerjee:** Sir in terms of margins?

**Sandeep Engineer:** The margin also, I already said that because of this Brexit there will be loss of margin. Indian operation has done well, even in the topline Resinova has grown 20% plus, because the UK has not grown that is why you are seeing that the revenue has not grown. The UK has also grown in constant currency but it has lost because of the Brexit.

**Basudev Banerjee:** So margin in fact has improved in the adhesive segment?

**Sandeep Engineer:** Adhesive segment's margin has substantially improved.

**Basudev Banerjee:** Yes, so is it because of mix or raw mat benefit or...?

**Sandeep Engineer:** So that is basically we were focusing more on the retail side of the market than on the industrial side. On the industrial side, we have slowed down, we are not focusing much now on the industrial side because that business is not contributing great margin to us. So, we focus more on to the retail side then the industrial side. So, because of that the overall margin has improved, there basically is a shift that has taken place from industrial to the retail side.

**Basudev Banerjee:** Next is sir, for adhesives if you can give a ballpark north, south, east, west revenue break-up percentage?

**Sandeep Engineer:** We do not share all this confidential information.

**Basudev Banerjee:** And sir next is what is your touch point count for the piping business as of now?

**Sandeep Engineer:** Piping should be around 23,000-24,000 at retail level; exactly we have to work out because normally we do this exercise at year end. So every analyst meet we change the number. I think roughly about 23,000-24,000 minimum, it should be more because we have just started our CRM programme from last six months, so we are getting lot of data in the CRM and today the CRM data shows us that we are connected with 35,000 retail outlets.

**Basudev Banerjee:** These include multi-brand and your own and all those things together?

**Sandeep Engineer:** Correct.

**Basudev Banerjee:** As you are talking to few dealers across the country, we are saying that the unorganised dealers who were dealing purely on kaccha business, they are suffering hugely because of this demonetisation. In market, these dealers constitute almost half of the overall dealer count that is the touch point count. So, how do you see the supply chain going ahead if these dealers who were involving in tax evasion, sustaining their business and how will it impact your supply chain?

**Sandeep Engineer:** Actually it is better for us because these dealers will change.

**Basudev Banerjee:** But they were multi-brand and they were selling your product itself?

**Sandeep Engineer:** Yes, but that also, and they are selling our products but it was not smoothly sold multi-branded to keep because of the way of business was different. Once the way of business is streamlined, I think for us what I have been talking, as I told in the opening remarks of the first question, for us it is a good future, it is a good move. Here, we do not see any major issues ahead of us after a few weeks things settle down. Secondly, there is a plus side to this demonetisation also, everybody is looking over one or two quarter point of view, yes definitely there will be a pain, it is very difficult for anybody to assess at this stage because the scheme is just launched one week before, so on a one-week basis it is really difficult for any business house to calculate what will be the effect. If you see in the long-term point of view, there are so many advantages. So, we should not look only for 1-2 quarters' point of view, or 3 quarters, because a lot of interest rate reduction is going to help the millions of low-class community. People who really want to buy the house but because interest rates are too high they are unable to. Secondly, what we are getting the sense from the market that the real-estate price is going to drop between 20-35%, it is a huge, huge drop into the price. I am not sure whether it is going to drop by 20-35%, but this is the media and paper reports and internal talk going on, based on that we are telling, we may be wrong in our assessment also. So, if anybody is getting 20-30% cheaper house, lower interest rate, there is a high probability that the people who really want to buy the house they will go for that thing. Secondly, there is a talk going on into the dealer and distributor community also that a lot of recovery of bad debt has taken place, because they were not getting the outstanding from developer, now developers are calling them and giving back that money. So that is also one thing positive from the working capital point of view and at dealer and distributor point also. So, that also we are saying that is a positive thing for us. Secondly, everybody is talking about the slowdown, and that is true, it will be there, but at the same time developer which every day was selling two units, today he is selling five units, seven units. And we all know how this economy works on kaccha-pakka system. We do not want to talk into that side, but today they are selling more units also. So whatever the existing units are lying with them they are able to sell also, whatever waste they are selling we are not going to discuss that point of how they are selling. But that is also taking place. Secondly, if everybody is saying 3 lakh crore, somebody is selling 2 lakh crore, somebody is selling 4 lakh crore, note will not be deposited, so ultimately government will get that money. They are going to spend A lot of positives are also connected

with this scheme. It is too early to say to what extent it is negative, downside is sure, no doubt about it. The timing will be very difficult, somebody will say one quarter will be affected, somebody will say two quarters will be affected, somebody may say three quarters. The timing is difficult to assess at this stage, maybe one month down the line we will having more clarity. We as a business community feel that in the long-term there are lot of positive things happening in the economy, but that time will only tell to what extent the positive things are there and to what extent the negative things are there.

**Basudev Banerjee:** And next is, you shared 52:48, sir just wanted to understand the volume growth in the respective segment, percentage volume growth and not the break-up.

**Sandeep Engineer:** No, it is one and the same thing, let me tell you. Naturally, the percentage of CPVC will be more if the ratio is more...

**Basudev Banerjee:** No, just growth.

**Sandeep Engineer:** No, we do not share all these numbers. Maybe next quarter onwards we may not show this 52:48 kind of number also because now we want to keep all this data confidential for the management only.

**Basudev Banerjee:** And sir as per few channel checks, as you have shifted to CPVC Pro, at retail plumbing level people are pretty much fine, no issue, quality checks and everything is there. But the builder community seems to be a bit on the negative side because of this shift, exit from Lubrizol. So any feedback from your side?

**Sandeep Engineer:** Sir that is what I am telling, right now we are growing faster than what we were growing, so I do not see any problem into that side. The kind of feedback which we are getting about the CPVC Pro is very, very positive from the market.

**Moderator:** Thank you. We have the next question from the line of Anshuman Atri from Haitong Securites. Please go ahead.

**Anshuman Atri:** My question is regarding the new CPVC ranges which you plan to launch. So what is the sales potential for all those which you have talked about, except the CPVC Pro?

**Sandeep Engineer:** Yes, the CPVC Pro is meant for plumbing as you know, hot and cold water. Industrial, already we were there. In industrial there will be growth and demand, and there will be a future. I do not see any problems with the product line which we will make. We are already doing our research on it, we have already given samples for approvals and I think in the short-time both the products for industry and the fire would be launched.

**Anshuman Atri:** Sir, I wanted to know the potential market size in which you will be...

**Sandeep Engineer:** The industry would be last year and this year close to Rs100 crore CPVC and PVC put together. PVC is lesser in that, I cannot bifurcate the amount and the numbers there. And fire is very low, let me be very frank, but with our launch and with some correction in the pricing and some of the approvals which are at the fag-end, I think the future of fire after 3-4 months is also very bright. So both products will have a good set of numbers this year, in the last quarter especially, our own product line and next year is much brighter for both the product lines once launched in our own brand in our own technology.

**Anshuman Atri:** Second is regarding the capacity and capex. All these new capacities which you are adding in Hosur, Ahmedabad and Rajasthan, what would be the total capacity and how much would be the capex for all this?

**Hiranand Savlani:** This year we are targeting around Rs60-70 crore capex and next year will again be around Rs70-80 crore kind of capex. This year, the capacity addition will be not that much great because we are going to construct one warehouse in Hosur and few machines will be added. So maybe 7,000-8,000 metric tonne capacity will be added. Next year will be a sizable capacity addition because the Rajasthan plant will be on. So we have to assess how the utilisation takes place at the year end, based on that we will work out how much initially to start, but Rajasthan plant at full capacity can take care of close to about 30,000 metric tonne.

**Anshuman Atri:** And in the adhesive segment are we bringing the products in the UK to be manufactured in Ahmedabad and what kind of products do you see there is synergy from the overseas operations? How much of it will be from Resinova India in Ahmedabad plant?

**Sandeep Engineer:** Actually, the silicon where we have done backward integration and we are doing all the work has been with the help of the UK operation. The UK operation itself is helping us to develop the range of silicon and MS polymer which is in more advance way of sealing materials. So that all is being done in the technical assistance from the UK operation. Regarding the construction chemicals and the cement mixtures and products which we are bringing, a lot of these products also have been developed jointly by the UK operation R&D and Indian operation R&D. So the UK operation R&D help is much, much integrated with the Indian operation R&D product line and help. So both companies are working hand in gloves to get all these technologies and products in India. At the same time, we are working to take a few products from India to the UK and repack them and sell in the European market. At some point once we stabilise or get established in the US six months or one year down the line, we will start to sell or repack some of the UK products in the USA and start selling in the US market. So each plant of adhesive is helping each other, integrating with each other, passing technologies, passing products and helping to develop new products. So, it is working like a close family for us.

**Anshuman Atri:** And lastly as a percent of sales, what would be the target for advertisement in this year and next year given that we have a lot of new product launches?

**Sandeep Engineer:** Our sales budget will not be going to affect much; we are regularly spending 1.5% close to about that. So we will be maintaining 1.5% kind of range.

**Moderator:** Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.

**Maulik Patel:** Sandeep, I have two questions. One is basically on this CPVC segment, is that because the supply of raw material is now available and also many players have come up, do you think that margin what we enjoyed in CPVC earlier which was definitely higher, will it come down going forward because of this increased competitiveness in the sector?

**Sandeep Engineer:** See, there is competition in CPVC and the product itself has become available through many suppliers. But the margins would be like a plastic business, the margins would not shrink too low because CPVC, polymer to compound to manufacture and to have the consistency in quality is very, very tough. It is not easy from polymer to get the product processed, to get the quality and the performance for many years. What is the product you see is not a performance of one year or two years, how it performs at the end of 10th year or how it performs at the end of 7th year. So a lot of these parameters are there, so many people have jumped in, many people are facing issues on quality, many people's products are facing issues. Looking at the whole scenario, I think CPVC will remain a polymer of preference, of quality of both players and it will also always fetch a good value from the market, it will not become a very low-value and low-margin product, it will always fetch a good value. So CPVC is going to keep the margin thing there for us.

**Maulik Patel:** Second question was on the adhesive margin, again. I think when you acquired Resinova and when you entered into this business the margin was around 7%, I think within probably a two years' time frame our margin has gone to around 13-14% which is a commendable job. And I think that has been the leading performance indicator for the Resinova. But is there any scope for increasing further because I will think from two side, one, the base effect of lower crude oil prices will start coming from probably next quarter onwards, Q4FY18. Is there any scope to increase margins, is there from operational leverage because our revenue growth will increase significantly going forward once our Ahmedabad plant starts, margins can go up further from this current level?

**Sandeep Engineer:** See, basically if you see, Maulik, we have never ever given the guidance of that kind of higher margin. If you see our earlier con-call or communication, we have always communicated that every year we want to increase 1% EBITDA margin. So in a particular quarter 1% or 2% plus and minus will always be there in the business. But at the same time we are absorbing the branding cost also. So this margin expansion is taking place after absorbing that cost also. So there is always a room. If you see the bigger player who are fetching sizably higher margin, maybe 22%, 23%, 25% kind of EBITDA margin they are enjoying, so we definitely have the scope available but at the same time we do not want to jump in immediately and start getting higher margins. Because ultimately going into the higher margin game, you have to at some level compromise with your volumes also. So our first priority will be volume, second priority will be

margin. So today the margins are good and there, I can say, is a 100% chance that the margin expansion scope is there, but we do not want to jump in immediately on to that scope, we will slowly and gradually understand the market, we will see how as a brand we are getting response into the market. Based on that we will take a decision to what level margin we want to operate our company. It is not only a margin game, scope is always there but we do not want to go in a way which unnecessary affects our volume growth.

**Moderator:** Thank you. We have the next question from the line of Avnish Chandra from East India Securities. Please go ahead.

**Avnish Chandra:** Sir, the first question is on the margin side. Our other expenses came down from 14.1% to 12.6%, so what led to this decline in other expense as a percentage of sales? Because anyway we continue to expand in marketing expenses and all.

**Hiranand Savlani:** See, it will depend on many factors, because some expenditures are seasonality side also, some expenditures are relating to branding also, some even take place in particular quarter. So these ups and downs on a quarterly basis will always be there, but on a yearly basis there won't be much change. But yes, with every growth, with every rise into the volume economy of scale is going to help us. So in terms of percentage it has gone down, otherwise we cannot improve our margins. Do not look at the one quarter plus or one quarter minus, on a yearly basis we are of the view that in percentage terms it will go down, but absolute level plus and minus, even on smaller quarter two crore, three crore here and there is going to affect 1% in terms of percentage. So it is very difficult to judge on a one-quarter basis, but I am sure on a yearly basis in terms of percentage it will be lower only.

**Avnish Chandra:** And how this new tie-up with Japanese company is working out? Because last time you mentioned that quarter three onwards everything will be online and this will start giving us better margins from the pipe business, so how that is panning out?

**Sandeep Engineer:** That already you can see the effect into the numbers, that in spite of dropping so much of price on our old material we are able to maintain EBITDA margin of 12.75%. So our original margin territory was 14%, so we are very small percentage of shortage of our original territory which we used to deliver two years before. So we are moving towards that direction. And because we were able to sell the pipes of the new material, we were able to deliver this number otherwise our margin could have affected sizably because we have dropped sizable price into our old material.

**Avnish Chandra:** So can we expect that at least not in quarter three, because that will be pain quarter, next year onwards we will be hitting our old margin of 14%?

**Sandeep Engineer:** We are very optimistic on to that side.

**Avnish Chandra:** And sir, also you mentioned last time that after this break-up with Lubrizol you have some kind of exports opportunity, so have we started looking at that opportunity?

- Sandeep Engineer:** Definitely we will look into that, because there is a huge opportunity for exports, at least for the neighbouring countries. So we are definitely going to look into that.
- Avanish Chandra:** So we have not started any work on exports?
- Sandeep Engineer:** We have already started.
- Hiranand Savlani:** We have started some work, but aggressive work we will start from next quarter because lot of work is going on at our end which needs to be addressed. But from next quarter means the last quarter we will be aggressively on the exports.
- Avanish Chandra:** And sir our first half consolidated tax rate was effectively 25%, so can we expect this 25% will be maintained at least in FY17?
- Hiranand Savlani:** It looks like, because we are getting Rs37 crore of goodwill write-off into Resinova on a yearly basis and now some advantage of goodwill write-off will take place in UK also because of this US acquisition. So it looks like it will be 25% to 27% kind of levels.
- Avanish Chandra:** And sir the split between Resinova and Seal-It adhesive business?
- Hiranand Savlani:** Split, now we have stopped giving all these numbers.
- Avanish Chandra:** Only sir Seal-It and Resinova, we are not asking for Resinova and Seal-It.
- Hiranand Savlani:** Resinova and Seal-It you need the number, Resinova has delivered in first half Rs. 148 crores and Seal-It has delivered Rs71 crore.
- Moderator:** Thank you. We have the next question from the line of Rahul Kundnani from Mahindra Mutual Fund. Please go ahead.
- Rahul Kundnani:** Most of my questions are answered, just one question I wanted to ask. Sir, is the system ready to move towards a more cash less thing, the entire value chain that you have do you see it moving towards a more credit system moving towards cash less things going ahead?
- Sandeep Engineer:** See, we are already cash less. Even my smallest of the office boy is taking a cheque from us. So at a company level we are already there. Channel level, if you see our distributor, 100% they are doing cash less only. Dealer level there may be some portion of cash, but I can tell you, again you can do the channel check, in the pressure pipe industry sizable amount is cash less only, maybe some may agree on maybe other product cash selling is more but in a pressure pipe a sizable element is cash less only, even today also.
- Moderator:** Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.



**Ritesh Shah:** Sir, my first question is for Mr. Engineer. Sir, do we fear brand valuation on the back of aggressive price cuts that we have taken? That is my first question sir.

**Sandeep Engineer:** I do not see any, we have not done any aggressive price cuts. Actually the price cuts happen more aggressively from others than us, we never change our price till October. We had given some schemes and discounts, but for our new product lines we kept the same pricing. And going ahead also we are well established, we do not see any great price wars happening at present. So I do not see any further price war and price cuts and things coming ahead.

**Ritesh Shah:** Sir, let me put it the other way. Out of the 9-11% or 8-9% price cuts that we had taken, what percentage of it was on back of raw material cost decline?

**Hiranand Savlani:** Naturally raw material has come down that is why we could do reduction in that, we cannot share exactly the raw material price has gone down. But definitely raw material process was down that is why we have to pass on; otherwise we cannot maintain our margins. So practically if you see if the PVC price is drooped by Reliance than every manufacture is dropping the price to the final product. Similarly, the CPVC price had dropped so now we have passed it on to the customer. So basically it is a drop into the raw material price, that has lead to the drop into the price. There is no way it is a brand or anything else, brand Astral is very strong, earlier also it was strong, today also it is strong.

**Ritesh Shah:** Right, I completely acknowledge that. sir, my second question is, let me put it the other way round, given we have moved away from Lubrizol and we have our own compounding facility, obviously there will be certain savings that will come through raw material cost, given our own compounding facility versus buying compound from Lubrizol. So that definitely makes us very solid case on margin expansion for us. Would it be possible for you to quantify that?

**Hiranand Savlani:** Time will tell, I already communicated that we will move to our original margin which I communicated around 14%. So we are targeting to be around that level.

**Ritesh Shah:** And sir my last question, in the earlier remarks Mr. Engineer said that we will take care of our distributors given the cash crunch in the economy. Does it imply that we are looking at more receivables at the distributor level or at the Company level in the forthcoming quarters?

**Sandeep Engineer:** I do not think so much change will be there, we will assess the situation of our distributor base, on cases to case basis we may give some relaxation to them, not sizable. As of today what the sense we are getting from the distributor, they are getting sizable cash surplus to them because they are getting from the market and they are getting over due payment from the market. So as of today there is no situation like that. But if the situation may arise we have to protect our distributor, we may give some leniency to them. But it will not be going to affect the company as a whole, maybe few crores here and there I do not think is going to affect anyway to the company.

**Moderator:** Thank you. We have the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara:** Sir, I had actually dropped out of the line sometime back, so I might have missed something and apologies if it is repetitive. Firstly, given the current situation on the ground where there is a short-term demand crunch, would we as a company strategically want to reduce ad spend in this quarter, recalibrate it to a later date rather than spending now or are we going to continue going ahead with the ad spend?

**Hiranand Savlani:** Actually we had brought down our ad spend and we are doing this transition also. At present also whatever spend we are doing is with lot of caution. At the same time we do not want to ignore and totally come out of the spend because in any panic we do not want to say the brand visibility is gone and whatever advantage we have to take from the brand visibility is gone. So, yes we are taking decisions as the things are moving. It is unpredictable scenario, you are correct, but at the same time we are not over aggressive, we are not even doing under spending.

**Kashyap Pujara:** Sir, the thing is that when I look at pipes and when I look at adhesives, my understanding is that adhesives would be more prone to a sharp crunch in the near-term because home improvement, home building is more discretionary versus piping which is more functional in that sense. And most of the dealing here regarding construction related would be by end customers through cash predominantly. So this would be one cycle which would be massively hit right now versus piping, is that a fair understanding?

**Sandeep Engineer:** See, whatever hit will be for piping will be for adhesives. Someone uses pipe he will need solvent cement, we are very strong in solvent cement. Secondly, similarly in adhesives, it is also used for construction and lot other applications. So I do not see, I think both will react simultaneously whatever it is.

**Kashyap Pujara:** And generally in the industry, I do not want to now comment specifically or probe specifically on Astral, but at an industry level before the demonetization effect sunk in, the average daily sales volume if it is 100, how much would be for industry now, 50, 60, 80, where would we be as an industry?

**Sandeep Engineer:** Kashyap, give us a few days, he has just announced a week back. And I do not know whether it should happen or not but whatever the booking we are getting in November of last year and this November and what is the ratio we should get of booking every day, our run rate is still going as per that. So I myself am keeping the fingers crossed. Let us asses and let us see how things will shape up in next two or three weeks.

**Kashyap Pujara:** And just another problem which I have and maybe what I want to understand from you would be the GST impact, because as we go in the next quarter and if the intent of the government is to implement GST then dealers this quarter any which way could be a washout because of the external circumstances which are not in our hand. And the next quarter because of the GST

dealers might want to carry as limited stock as possible, because they will not know how much to claim in terms of credit. So what are your thoughts on the GST front, is the industry ready, is it likely to be implemented in the coming quarter or would it spill over to the next financial year, what are your thoughts on it?

**Hiranand Savlani:**

See, at this stage, Kashyap, it is very difficult to say how government wants to take it. But seems difficult to implement on 1st April, it will be delayed this is what our internal sense is. We may be wrong also, because now after this demonetisation lot of other things will be there to the industry. So government may delay or maybe government machinery may not be ready for that. So it seems difficult to implement on 1st April. But even if it is implemented on 1st April, you are absolutely right that the sale of the March month will be affected. One month prior sales definitely is going to be affected if the GST is implemented. Now suppose if it is not implemented on 1st April, it is implemented on 1st of October, then the next year September sales will be affected, one month sale definitely is going to be affected. So basically if you see that most of the places we are having our own warehouses, so we are very close to the market. So if you ask the distributor and dealers are not holding the inventory sizable is that I can say they are holding too much inventory or...

**Kashyap Pujara:**

No, I am sure and they have limitation in terms of capital also. So they cannot afford to carry too much inventory any which way.

**Hiranand Savlani:**

Correct. So one month definitely will be basically you can say a roll over, so you are doing sale in the month of September, so October sale will be high. So trade demand will be trade demand, there that will be no change. But it is only postponement of the thing, the dealer which normally keeps three week inventory or two week inventory of four week inventory, it may come down to one week inventory or maybe four, five days inventory. But we have immediately in the October he has to rush for the inventory. So it will be a transition phase for one month only, I do not think that is going to affect that industry per say. But yes, on a particular month the quarter ending number will be affected.

**Moderator:**

Thank you. We have the next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

**Kamlesh Kotak:**

Sir, my question pertains to firstly on the adhesive business. You said that we are moving more towards the retail business rather than industrial. Can you share some ballpark range between how much is our industrial and retail would be?

**Sandeep Engineer:**

Kamlesh, we do not share all this internal number because we are keeping all this confidential. Because we are new into this business so we want to keep maximum all this information confidential.

**Kamlesh Kotak:**

But going forward what would be the thrust area, it will be more towards retail in terms of the new...

- Sandeep Engineer:** Yes, it would be more towards retail, that we can say.
- Kamlesh Kotak:** Secondly sir about the dealer distributor network in that business, are we still reaching that kind of penetration which we have in pipes or we have been working on that, how is that distribution network is ramping up for that adhesive business?
- Hiranand Savlani:** That adhesive business network is much stronger than the pipes, because adhesives you reach and every corner, particularly I am talking about north and west and the east side. South, we are still weak, so there we are now expanding and the number of dealers are much more than what the pipe dealer is. As we have told, now in the CRM we are getting number of 35,000 kind of level in pipes and in adhesives it is close to about 452,000 to 500,000 counter. Very, very high number because these counters are very, very small. So we are already there into adhesives and now we are expanding further to the south and all this market wherever our presence is weak. So now with this new additional capacity we will be very aggressive into that side also.
- Kamlesh Kotak:** One more thing about that business, have we started getting some pricing differential between the number one, number two player and vis-à-vis us, because there was a huge amount of discounting for Resinova products earlier.
- Hiranand Savlani:** Still sizable discounting is there.
- Kamlesh Kotak:** But is it being getting down with price revisions or not?
- Hiranand Savlani:** I think we have not done too much of price revision, hardly few products we have done the price revision. So now closely and gradually it will narrow down, but it will take year, it cannot be completed in few quarters I can say.
- Kamlesh Kotak:** But that could be an add-on lever, in terms of the market?
- Sandeep Engineer:** Naturally it will be because there cannot be a 10%, 15% or 20% price gap because today we are at a low level, brand is not that strong today in the market into adhesive side. So once the Astral brand advantage will be available to the adhesive business slowly and gradually it has to come down.
- Kamlesh Kotak:** And sir, generally in terms of PVC and CPVC resin, what is the raw material price trend you see from here on, maybe if you see any kind of trend for those two raw materials?
- Hiranand Savlani:** Right now PVC trend is on an upward side and constantly it is going up, up and up. And CPVC is on a downside. But now I think CPVC is also at the end of the journey, now CPVC from the next quarter onwards we are foreseeing that the price revision will be on upward side.
- Kamlesh Kotak:** For CPVC as well?
- Hiranand Savlani:** Yes, CPVC as well.

- Kamlesh Kotak:** And PVC already you said it is on the upwards?
- Hiranand Savlani:** Yes, it is already on upward side.
- Kamlesh Kotak:** And sir lastly, what is your take about the agri pipe business, how that business is shaping up for us and how you see the prospects there and how we could penetrate that market?
- Hiranand Savlani:** Agri pipe we have just taken entry, so we are growing fast into that segment also. But we have to see how that business is going to work out for us. But we are very, very positive into that business also because the number is very, very excellent at the beginning of the journey because our base is very low. So we have to see how fast we can monetize that thing. But we are very, very positive into that side also.
- Kamlesh Kotak:** But the pricing and other terms would be very different from our existing line of business?
- Hiranand Savlani:** No, not much difference. Because that business is anyway is a very, very reasonable margin business, so I do not think there will be a huge variation from one manufacture to other.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nitin of Ambit for closing comments.
- Nitin Bhasin:** Thanks Sandeep bhai and Hiranand ji for giving us so much time and discussion on the results. We will close the call here only. Sir, any closing remarks from you?
- Sandeep Engineer:** Thank you to all participants, and particularly Nitin you also, thanks for giving Astral opportunity to host the call. Thank you, everyone. And wish a great future with the changes in the economy. We will all work hard and come back with more promising results in the future. Thanks everyone.
- Moderator:** Thank you very much. On behalf of Ambit Capital, that concludes the conference. Thank you for joining us. And you may now disconnect your lines.