



“Astral Poly Technik Limited Q3 FY2017 Results & Business Outlook Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Astral Poly Technik Limited Q3 FY2017 results and business outlook hosted by Dolat Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Priyank Chandra from Dolat Capital. Thank you and over to you Mr. Chandra!

Priyank Chandra: Thank you moderator. Good evening ladies and gentlemen we welcome you all on behalf of Dolat Capital to the conference call with the management of Astral Poly Technik Limited to discuss the financial performance of Q3 fiscal 2017 and the future business outlook. Representing the management Astral Poly Technik are Mr. Sandeep Engineer – Managing Director and Mr. Hiranand Savlani – Chief Financial Officer. We now hand over the conference to Mr. Sandeep Engineer for his initial comments after which we could move onto the Q&A session. Over to you Sir! Thank you.

Sandeep Engineer: Thank you Priyank. Thank you everyone. Good evening and thanks for joining this conference call for the Q3 results and the scenario going ahead, which we will be discussing in this call.

Before starting and going into the business, I would like to inform everyone that we have completed all the obligations of Lubrizol amicably without any issues. Relations are very strong with Lubrizol and the business relations for the future are always open, so it has been a very smooth transition moving from the Lubrizol brands to our brand and now Astral is fully being selling its own brand CPVC PRO in the market and also we have launched our chemical, the product for the industries, ChemPro, which is there and we have recently also launched FirePro for the fire protection market.

So we have completed all the three product lines for the plumbing, fire and industry, CPVC and all these three products lines are available and have started selling in the market. Last quarter ahead lot of challenges and as everyone knows and everyone was looking at different challenges for Astral. The challenge of shifting from buying material with ready compound to going for own compounding and the full quarter we had to sell our own product line, get it properly established, increase the sale, increase the volumes and the biggest challenge that came, which everyone knows is demonetization and against that challenge also we have given healthy volume growth.

We have also given value growth, we have also established our product, we have safely established our compounding systems, we have also established our quality in the market, we have established the quality parameters at all the plants and we have fully utilized almost our CPVC production capacity and we have also increased the CPVC production capacity which in numbers will be shared to you to the level we can share by Hiranand Savlani.

All the plants were functioning at an optimum capacity levels, the production was high as we have to built inventories, we had to fill the market, we had to see that our product is safely going to the markets, smoothly going to the market and at the same time keep a tab on every pipe which is made adheres to the quality levels which we have set for our CPVC PRO.

Successfully, we have been able to establish our product with more advantages in quality, more advantages in performance and with getting the product to every nook and corner of India. CPVC PRO is now well-established, well available and now Astral distributors, dealers and complete channel is selling CPVC PRO to the market. Chem Pro was launched just a month ago not even in a month actually around between 20 and 30 days ago and we have started selling it to the chemical industry. It has also been successfully tested, used and the customers are satisfied with the quality and the performance of the Astral ChemPro product line.

FirePro has just been launched a few days back because we are going through the complete testing procedure of ISI, which has been through and we have got few projects for FirePro and the FirePro is also in the market and well established.

The Hosur plant, which has issues on power, has been sorted out. We have got the sanction of 33kv substation. The work is on and the power requirement which we have, will not only be fulfilled, but we can go for a three times expansion in the Hosur plant. As soon as we got the sanction of power, we got substation, the work is on, and almost the power will be connected within next few days. We have started expansion work in the Hosur plant and in next five to six months, we will be doubling the capacity at the Hosur plant for all the product lines and also going for certain backward integrations for setting up a compounding facility for CPVC at the Hosur plant as well as start making the fast moving fittings at the Hosur plants.

The south plant is growing, expansions are on, we have now overcome the power issues there. We also got the permission from the government to do construction for the full site. So we are in a full blast of expansion going on at the Hosur plant. After seeing the performance of the Q3 and the way the things are moving and they established and as soon as we got our product is well-established Astral brands, CPVC Pro and the other product lines. We have started work at the Rajasthan plant, which we are building at Ghiloth.

I think in next month the work will be in full swing, the work has started and we are mobilizing the contractors. The contractors have started work and next month the work will be in full swing and I think within next one year less than a year we should be completing the plant and setting up the production facility to make CPVC and PVC products at Ghiloth at Rajasthan, which is actually very near to Delhi 100 km from the Delhi airport you can reach the plant.

We are also looking at new avenues in the future where we can go to the east to set up the facility and I think in the near future we will work on edge and zero down one of the states where we can start looking at a plant in the Eastern India region.

Kenya things are moving well. Now we are making major fittings of CPVC, drainage, and agri in Kenya. The fitting production is growing and the range is expanding. We have there also successfully changed to our brand CPVC PRO in Kenya. We have already sent a few containers and we are getting good response on our brand in Kenya and the East African market, which is growing.

Going through the pipe business as I told that it was challenging quarter for us as everyone is watching this and we have overcome all the challenges. It has been a challenging period for us of one-and-a-half years, which also from the results you can see the performance that we have overcome and we will keep on improving on these numbers, which actually we had talked about in the last concall also.

Coming to the adhesive business Resinova, the Gujarat expansion plant work which was going on is almost complete and by March, we will have all the products being made in the Ahmedabad plant. At the same time, we are strengthening the facilities at Kanpur, both the facilities we are strengthening. Whatever they need be on automization, looking new equipment on new products, so complete work is going on all the three facilities in Resinova. Other strengthening of market branding, things are also moving well with Resinova and we have taken up a huge branding activity of Bondtite in Resinova, which is visible now throughout pan India.

UK has been growing unfortunately the Brexit effect is causing it or showing that there is no growth because of the currency effect which was happened but UK has grown at 12% and it is growing a 12% and it will keep on growing at 12%, it has also improved the margins also and the improvement in margin will also continue and I think on the UK margin at business Hiranand Bhai will be talking more on the number side, but UK is doing very good compared to the last year. It is the growth in double digit actually.

US were the challenge for us this quarter. We could not generate good numbers and profit out of it, because we had to shift the plant from Miami and we have shifted the plant from Miami to North Carolina. The plant is now operational. We lost a month of production and business because of that and we started the shifting work mid of November. We have completed it in the first week of December, we have started the plant, we had Christmas then but in January the plant has been running in full swing.

The numbers have changed and I think that discussion also go through when we have question answers and Mr. Hiranand Bhai will explain you more on that. But UK and US both are doing great.

The numbers will be visible in this quarter and coming quarters. Resinova is also equally doing great, the numbers will be visible this quarter and coming quarter.

Coming back to Astral, I would like also to add that we have successfully launched and started getting business of PP, mineral, field drainage system and it is growing very fast for us. The market is accepted it. The market is demanding it and there is a good generation of demand happening for this unique drainage system and we expect to get good numbers and good growth out of it and it would be one of the value added products for Astral and we are also working on many other product lines, which will add value in the topline and the bottomline in coming one year to one-and-a-half years and keep adding these product lines.

In nutshell, we have done great. It was everyone was looking at it, everyone was fearing that after the major change and the shift we had done in backward integration, what would be the position of Astral in the acceptance of the market in growth, in numbers, in value, in bottomline, so everything is before you and we will have more discussion on it as we proceed in this concall.

Once again thank you everyone for joining us, joining this concall and we will have more discussion as we move ahead in the call. I will hand over to Mr. Hiranand Savlani for his view on the numbers and then we can have the Q&A.

One more thing I would like to add is that the budget also will help the infrastructure industry and us especially the housing industry for coming years and many years and secondly is the demonetization also will have great help on organized players buying our product and that is also will give us good growth for us in the coming years, not year, but years. Thank you.

Hiranand Savlani:

Good afternoon everybody. Thank you for joining the call. I will take you first to the piping business number quarterly and the nine-month number and then the adhesive and then we will discuss about the consolidated number.

The piping business, the topline has grown up from Rs.316 Crores to Rs.355 Crores this quarter, so close to about 12.5% topline growth and similarly the EBITDA has grown up from Rs.32.4 Crores to Rs.51.6 Crores, which is close to 14.5% EBITDA which was last year closed to about 10.22%, so close to about more than 400 BPS rise into the EBITDA. Last year, we lost some margin because of the inventory effect; this time nothing was there because of that EBITDA has improved substantially.

In the adhesive side also, the topline has grown up from Rs.92 Crores to Rs.103 Crores, so close to again 12% kind of sales value growth and volume growth was also more or less into the better than the 12%, so close to about 15%, 16%, because UK as Mr. Engineer said that Brexit has affected us. In a constant currency, we have grown around 13% in this quarter, but because of Brexit we have

negative growth of 5% in rupee term, so because of that value growth was low, but the volume growth was high.

On the consolidated basis, the revenue has grown up from Rs.402 Crores to Rs.450 Crores, so close to about 12% growth into the revenue. Similarly the EBITDA also has grown from Rs.40 Crores to Rs.63 Crores, so close to about 57% kind of growth into EBITDA and in terms of percentage EBITDA was last year consolidated 10%, which has increased to 14.1% close to about 400 BPS improvement into the EBITDA.

So rest all numbers are with you, so I am not going into the individual number, but main points I want to highlights for this quarter. As we know as a part of the strategy of the company to derisk the company and we are continuously following that strategy of derisking the organization. We were 100% dependent on CPVC business and Lubrizol at one point of time by introducing PVC we reduced our dependency from 100% to close to 50%: 50% by adding the adhesive business, we further derisk the CPVC business to 40% and now again within that CPVC also by launching our own brand, we can proudly say that we are almost now a derisk company. Now we are self sufficient on our own.

Further after almost a gap of two years, Astral has delivered the EBITDA growth of more than 14% which Astral is known for delivering that kind of higher growth margin, but unfortunately from last two years, we were struggling for one or other reasons may be some drop into the PVC price then the drop in CPVC price then you can say the Brexit then you can say demonetization, everything was affecting Astral in last two years and because of that we were not in a position but now looking to the number of this quarter we are quite confident that now Astral is back to the front and we will be delivering reasonably good number in the coming quarters also.

In Adhesive business also a little bit disappointment was there in this quarter mainly as Mr. Engineer explained that because of the shifting of the plant from Miami to North Carolina, we have lost the sales, not only we have lost the sales of one month, but because of there it has generated the negative EBITDA for us and not only that we have further incurred the expenditure for reshuffling the plant from Miami to North Carolina, so that expenditure has also been there into the system, so because of that complete the UK EBITDA was wiped out. So this quarter UK has delivered a negative 1% EBITDA actually it is not that, this is because of the one time effect otherwise the numbers were good from the UK, so this one time look at there into the number otherwise on a standalone basis Resinova in India has delivered a 21% topline growth and closed to about 16% EBITDA margin.

Adhesive side we are quite confident, but the only this setback has come because of this reshuffling, but that was the part of the strategy. So looking to the long-term our vision for this adhesive business, we have taken that step to shift the plant from Miami to North Carolina. Normally, we are seeing that every investor community has a biggest concern on the ROCE of the Company, because ROCE has

fallen particularly after our dilution and acquiring this adhesive business, but I want to highlight onto that adhesive business. If you see we have paid around Rs.350 Crores for acquiring this business and if you see this year EBITDA alone we are targeting to generate Rs.55 Crores to Rs.60 Crores kind of EBITDA from the adhesive business. In the first nine-month, we are close to about Rs.41 Crores kind of EBITDA. So if you consider Rs.60 Crores of EBITDA and we have paid Rs.350 Crores, I think we have reasonably paid these businesses and now coming year ones this everything will be settled down UK operation and the US operation and the doubling of the capacity in India this adhesive business is going to give the robust number in the coming quarter even when we acquired the Resinova you have seen that what kind of EBITDA margins were there. We were working around 7%, 8% kind of EBITDA margin which we have almost that close to about 13% kind of consolidated EBITDA after this adjustment of reshuffling and all this thing.

Now from this quarter onwards we are quite confident that the adhesive business will not only give the topline growth, but it is also going to give healthy EBITDA in every quarter and we are quite confident about the adhesive business and with that our ROC will also every quarter-on-quarter you will see that it will start improving which you can clearly see in the every coming quarters.

Piping business also as I explained that in the last almost two years, we were working close to about 12% kind of EBITDA some quarter it was 10%, some quarter it was 11%, some quarter it was 13%, but never exceeding the 14% which if you see the history of Astral prior to these two years, we were regularly generating 14% kind of EBITDA, but we were missing since last two years because lot of struggle and lot of issues which all are in the public domain, but now again we are back to this 14% plus territory and we are quite confident that these kind of margin is sustainable kind of margin, so coming forward also we will be able to deliver that level of kind margin.

Adhesive business also this Resinova, we are doubling the capacity and we have already started production into the new plant like Epoxy has already started then cyano has already started, all the powder product like tiles adhesive, tiles grout has already been started, silicon has already been started, not only we have started, but we have gone into the backward integration into the silicon and we are doing our own compounding in Ahmedabad, so that is also started operation because of Brexit we were in a position to generate only 20% topline in spite of this demonetization, but now we are coming out from the demonetization effect. We are quite confident about that business in the coming quarter also and shortly we are going to launch the PVA Call product then the construction chemical as well as Epoxy putty. All these things are into the pipeline that will also be launched before March.

With this I am concluding my initial remarks of the numbers and all the performance and now I am opening of the session for the question and answer. Thank you.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Congratulations for a great set of numbers. Sir my question is, you indicated that incrementally we will be getting into PVA segment as well construction chemicals. Would you be possible for you to give a broad breakup of whatever subsegmental revenues are like if I look at epoxy versus cyano versus silicon? I just trying to understand the market opportunity is huge and how well we are placed over here and basically the scope is Sir, I was just trying to understand where we are and where we can be, if you could give some broad color on our revenue breakup for epoxy, cyano, cyanoacrylate?

Hiranand Savlani: Ritesh, I think we made categorically clear in the last concall that now onward we are not going to share all this internal number or segment wise or may be this category wise or may be product wise even in PVC, CPVC also we have stopped giving the numbers, because these all are the confidential numbers and lot of competitors are watching these kind of number closely, so as a management we have taken a call that we will not be sharing all this number to the public at large, not anybody we are not going to share these numbers.

Sandeep Engineer: But to answer you other way the PVA is a big market as everyone knows and we have been in PVA for many years in Resinova, but we have not been many focused on the PVA market and the different grades of PVA, which have been made. We are bringing all the grades in PVA. We will be working to grow this market, we do not say we want to compete whom, we are not looking at any competition, everyone has its own market, but we see there is a huge gap and huge room in this market and we will be trying to get our product in that market with available room and the growth but I see a good future for PVA grade, which are coming out shortly in the market.

Coming to the construction chemicals, as you know the modern constructions, which are happening, the way the buildings are build today, there is a huge need of construction chemicals and the future of construction chemicals is going to be very bright. We had very few numbers of products in this segment. We have segmentized this as a European product line and we are continuously adding and completing the range of products which are needed for construction chemicals, waterproofing, whether it is tile ceiling, tile adhesive, tile grouts, enormous number of products are coming in this segment and I do not say again I am not going to grow and compete anyone, but I am going to grow in my own and there is a huge space available for growth here and we are going to grow in that space available with all the product lines which we are adding actually a lot of products are ready, lot of product machines have done, products are in line, some of them have been launched, some are getting launched and some will be launched as I again said in my initial opening remarks that by March will be finishing most of the product lines, which is needed by the Indian market and needed for construction, for the adhesives, for the segment of business, so both the lines have great future ahead. Thank you.

Ritesh Shah: Just triple sets, is it a product under PVA basket that we have currently?

Sandeep Engineer: Yes, very much.

- Ritesh Shah:** How is it that we plan to ramp this up even we already have product over here, so are we targeting a increase sales force or what is our strategy to capture the market incrementally?
- Sandeep Engineer:** We did not have capacity one, so first is the capacity comes. We have put a new huge capacity one. Second is we are planning it and launching it with a new brand which is happening shortly. We had only one range, one category for this. We are putting all the three categories, which are needed. So there is a great plan behind this and great work behind this. Again I am not going to run and compete anyone, I have huge room in the market and I am going to grow in my segment of market with quality, quantity, branding and giving all the grades needed for the market.
- Ritesh Shah:** That helps a lot. Sir my second question is in your initial remarks you indicated a very interesting point that you will be putting up a compounding facility at Hosur. What are the thoughts over here, so what will be the incremental capex and how should one look it from margin point of view, it would be definitely a margin accretive, so if you could please quantify in these two numbers will be great?
- Hiranand Savlani:** Ritesh, we are working that. Exact numbers we are not freeze yet, but right now first we will be competing the building, right now we have just started working on that, so may be in the next concall we will be having handy numbers with us, so we will let you know what will be our next year capex plan in that we will be covering this compounding unit also. So at this stage everything will be coming to the next year, so there is no plan for this year capex, so once we will be finishing up our budget at the year end, we will be able to share with you the kind of capex we are going to incur that, but definitely it will be margin accretive.
- Ritesh Shah:** Would it be possible for you to provide some colour on the margin expansion what happened this quarter I think we had some old high cost provisional inventory even in this quarter and as this new compounding facility helped us in this quarter and how do you see the margin profile basically from the Ahmedabad facility, so it is definitely the margin accretive, if you could please put some number that will be great help?
- Hiranand Savlani:** Definitely backward integration, the objective was to improve the margins and that is clearly reflectable in the numbers and going forward also it will be healthy margin only and you are right yes in October we had a lot of pressure from the left out inventory of Lubrizol that we have to push into the market at a lower price, so that we have pushed in the market, so because of that margins were under pressure in this quarter. So, we are expecting good number in the coming quarter.
- Ritesh Shah:** Okay, no quantification whatsoever?
- Hiranand Savlani:** No, at this stage.

- Ritesh Shah:** Sir last question from my side. You indicated that we would look to add incremental capacity at Hosur, if you could please quantify what is the current capacity and what is the timeline for incremental capacity that we are looking at?
- Hiranand Savlani:** Right now, we are working around 14000 to 15000 metric tonnes, next year we will be at least doubling the capacity.
- Ritesh Shah:** Rajasthan would be how much?
- Hiranand Savlani:** Rajasthan, initially we are targeting to be close to about 20000 metric tonnes.
- Ritesh Shah:** Last question, how much should one look at the capex number for FY2018?
- Hiranand Savlani:** We are working on that. That is what I communicated that in the next concall will be ready with our internal budget and based on that we may not go one go all this capacity as and when it is required we will be adding the machines, so nothing like that at a one go going to increase to 35000 metric tonnes in next year. So we will understand the market opportunity of that particular region based on that we will be adding the machine, but yes building will be completed next year and machine will take place as and when it is required. So we do not want unnecessary without utilization we just add the machines.
- Hiranand Savlani:** Thank you so much and good luck.
- Moderator:** Thank you. We have the next question from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** Thank you for the opportunity and congratulations on very strong results. My question is regarding the demand. What could be the volume growth can we expect from Astral in the normal scenario you done 12% in a difficult quarter?
- Hiranand Savlani:** In a normal scenario, you can safely presume 15% to 20% kind of growth but right now because of demonetization we all know that the growth is in the range of 12% to 15% kind of zone, but we are quite confident that this quarter may be little bit low, may be 12% to 15% or may be closed to 15% but next quarter onward we will be back to 15% to 20% kind of territory.
- Anshuman Atri:** Okay, can you give any colour on what was demand environment in regions like the south versus west or north, which anything was?
- Hiranand Savlani:** We do not say that this kind of number because we have already clarified that.
- Anshuman Atri:** Not for that I am saying for the industry growth trend whether?

- Sandeep Engineer:** Basically every region has almost contributed the way it was contributing, it is not that few region went down and only few region went up, so what we could see is that every region was contributing the way it was contributing, there was no major shift I think the shift which majorly came was from the smaller players whereas the organized players had still continued to do their own business.
- Anshuman Atri:** Okay, in terms of Resinova, the adhesive business, we have almost doubled the margins. How much more scoped we have here in terms of further expansion?
- Hiranand Savlani:** We are already ahead of the curve. What we guided earlier, we are already ahead of the curve, and I think we should not expect too much expansion into the margin. I think one if we want to maintain these kind of margins for a longer period with the growth of which we are talking about 20%, 30% kind of growth, I think that will be the big achievement and that will prove to be a successful acquisition for us.
- Anshuman Atri:** Definitely and in terms of capex what has been already spent in this year, in nine month and what is the full year target?
- Hiranand Savlani:** So far in nine months we have spend around Rs.50 Crores to Rs.52 Crores kind of capex and full year will be another I think Rs.20 Crores or so next.
- Anshuman Atri:** Okay.
- Hiranand Savlani:** May be Rs.70 Crores or so.
- Sandeep Engineer:** But this year, capex has gone on creating new building and the work started in both the plants plus all the three plants are now having full flow of electricity. We have got 66kva substation, built and getting active and will be working in both the plants in Ahmedabad that is Dholka and Santej and a 33kva substation functional in Hosur. So for next five-year expansion I think all the three plants have not to look at the power requirements. The major bottleneck of growth versus the energy has been resolved this year.
- Anshuman Atri:** Okay, one last question is on distribution given your rapid pace expansion on product profile, how do you see the distribution for both plastic as well as the adhesive ramping up next year and what is the current capacity in terms of distribution?
- Sandeep Engineer:** Distribution is well established. When you go to the piping business, we are adding distributors in every region where he have distribution throughout India. We have product available, but distributor has limit to grow and wherever distributor is not growing or his financials are under stress or he is not able to invest more money, we are adding new distributors. For certain new products where the investment again is going high we are adding distributors. For certain new product lines like the column pipe or the casing pipe, we are adding distributors. So it is a continuous process, which we

will keep on going for years together and the improvement, the corrections and the alterations will be happening. As far as Resinova is concerned, the same thing is happening. The regions where we are strong also we are trying to look at distributors who are even bigger, better and who have strength to invest and certain regions where we have the weaknesses especially south, we are more focusing on adding distributors there. I think addition of distributors and the channel, it is the continuous process which will go on for years together and we are taking the right people as our channel partners and things are moving very smoothly on that part.

Anshuman Atri: Thank you Sir and all the best.

Hiranand Savlani: Just to add to what Engineer said this month we have launched the casing piping also into the market, so that will be the another new product from Astral basket.

Sandeep Engineer: Which is used it as the borewell.

Anshuman Atri: Thank you and all the best.

Moderator: Thank you. We have the next question from the line of Pravin Sahaye from Edelweiss. Please go ahead.

Pravin Sahaye: Thank you for opportunity and congratulations for a good set of numbers. My question is firstly on how is CPVC prices moving domestically?

Sandeep Engineer: CPVC prices domestically are moving in it, they are dropping very fast. They have come down because of multiple availability of the manufacturers from China and Japan and many, many places, but now it just stabilized in last three to four months. The market is good, the market is huge, the market is going to grow, the market has great future and CPVC pipes are going to remain India lifelong just take it from and it is an excellent market for the future. Only thing is that the CPVC is the tough polymer to compound, tough polymer to process and tough polymer to get the quality and it is used for hot water and plumbing lines and 90% of the plumbing done today is under pressure, everyone wants the water to flow very fast, wants a nice bath, wants a water to hurt their body and they should feel that there is water coming when they are having shower. So in that case you need proper pipe, you need nice pipe, you need pipe which performs, so the challenge for today's market of many people coming into CPVC is to deliver pipe which function what is the need from CPVC Poly Vinyl Chloride so that is very important, so organized players, and who do rightly have a great future and great market ahead.

Pravin Sahaye: So basically in the couple of quarters, we have seen dropped in the prices to stabilize?

Sandeep Engineer: Very much.

- Pravin Sahaye:** Second question on like demonetization whether it is impacted anything on the working capital cycle?
- Hiranand Savlani:** It is not much, we have given some extension to our loyal distributors who are associated with Astral for many years, so there we have given some concession, but I think that is also coming back now, so we have slowly and gradually withdrawing that extra limit which we open up for some of our distributor. So I think by March everything will be smooth.
- Pravin Sahaye:** Great and how much is our consolidated debt Sir currently?
- Hiranand Savlani:** Right now it is around Rs.150 Crores.
- Pravin Sahaye:** On the Resinova side as you had mentioned 21% of growth, so how much is from the volume side of this?
- Hiranand Savlani:** There is a volume and value more or less is the same. There was no price rise in the last quarter or price drop.
- Pravin Sahaye:** As already mentioned in the opening remark end of March, the Gujarat expansion will complete, so how much is in a total capacity out there?
- Hiranand Savlani:** Actually in tonnage terms, we do not have number because some are in a liquid form, some are in part of products are in metric tonne, so different, different categories of products are there but we can say that we are doubling the capacity, so right Resinova was in a position to generate Rs.300 Crores of revenue, now it can generate Rs.600 Crores of revenue.
- Pravin Sahaye:** Basically there is another comment from Sir, is expanding the Kanpur plant as well?
- Hiranand Savlani:** Kanpur we are doing the modernization side more, because we are adding the packaging lines more, because capacity already there, but some of the activities are happening manually, so there we are making it automise. So there we are spending, so indirectly we are adding the capacity also, so that work as and when it is required wherever we feel that the bottleneck is coming where there we are spending some money and we are creating the additional capacity.
- Pravin Sahaye:** Clubbed together our capacity is doubling?
- Hiranand Savlani:** Yes.
- Pravin Sahaye:** Thank you Sir. I will come in the queue for further questions.
- Moderator:** Thank you. We have the next question from the line of Zeeshan Bagwan from JM Financial. Please go ahead.

- Zeeshan Bagwan:** Thank you for the opportunity. My question was pertaining to the adhesive business, could you please provide some color on what is the specific marketing strategy that is being adopted with respect to this business?
- Sandeep Engineer:** At present the marketing strategy or what the way the marketing has been done in Resinova is, they are more focused on the retail sales only and they have been always selling to distributors and then goes to the retail market. Now we are slowly started opening distributors who will be going to the projects also, because when you come into the construction chemicals or when you come into certain product lines, you need distributors or you need people who will directly give to the builders, who will give in bulk, who will sell quantity, who will service them. So there are now we have two channels which one is the strong channel of retail, the second is a channel which we are working on and we are growing in that channel which is the channel of projects, sales to the projects or the institutes or the government institutes or the private builders or whatever you can say.
- Zeeshan Bagwan:** Can you just provide in terms of percentage what would next be currently at retail versus institutional?
- Sandeep Engineer:** At present retail is you can say it was 100% a few months back and now the channel, which we are opening, is hardly there, so we have to work honestly.
- Zeeshan Bagwan:** Another question like what would be your current retail touch points?
- Sandeep Engineer:** It will be closed to about Rs.5 lakhs.
- Zeeshan Bagwan:** The sales force number for adhesive business?
- Hiranand Savlani:** We do not share that number.
- Zeeshan Bagwan:** Fine, one last question can you provide the sales as per region wise?
- Hiranand Savlani:** We do not share all this internal number. We have categorically say in the beginning of the concall, these all are the confidential number and we are totally new into this category, so we do not want to dilute all this our internal strategies, all these numbers and all these, so please excuse us for this.
- Zeeshan Bagwan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Sandeep Bhai and Hiranand Bhai, congrats for a good set of numbers. Most of my questions have been answered, so I will not ask right now. Thank you so much.

- Moderator:** Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Thanks for taking my question. Very good set of number after many quarters. I dropped in between but I am not sure that this question was asked. How this quarter margin in the pipe are was almost 14.5% which we used to get earlier years, is that look at FY2015, FY2016 both year that was margin was about 12.5%. Are we confidently saying that we are back to that our earlier margin trajectory in the pipe business?
- Hiranand Savlani:** It looks like that we will be back into these kind of territory what we were earlier.
- Maulik Patel:** We use the prices of the pipe by almost 10%, but that is not significant correspondingly reduction we mainly with CPVC fittings, so the gross margin expansion we are saying is it largely because of the fitting margin expanded?
- Hiranand Savlani:** Not necessary.
- Sandeep Engineer:** Necessary, we cannot give the breakup, but we have worked to improve overall performance and if you say Maulik Bhai we have worked very hard because we had also initial few days where we also to zero down with complete inventories of Lubrizol, so what can sell our inventory and get into the numbers. There is demonetization in front of us, so we weathered a lot of challenges in this quarter and we have sailed through and you can see the number sale.
- Hiranand Savlani:** I can say other way that you wait for this quarter January to March, the real numbers will come out in this quarter, because this quarter will be completely our own product, there is no lag of effect, so real margins you will come to know in this quarter.
- Maulik Patel:** I understand that. Second question is on, on the presentation, the EBITDA was around Rs.11.5 Crores for the adhesive segment, but in your press release your segment the EBIT from the adhesive is Rs.18 Crores plus?
- Hiranand Savlani:** Because of the inter group company, because Resinova whatever the adhesive is producing particularly for the piping solvent, is a well known brand, it is totally sold by Astral, now Resinova also is selling in their own channel, so that is giving us a difference between the standalone number and segment number.
- Maulik Patel:** Both the consolidated number only, in the consolidated the adhesive EBIT was close to around Rs.15 Crores, but the EBIT, the question is the small detail which you send for the investors and exchanges that is on 12.5 Crores, but I will work it on that number later on. Second question again on the adhesives, we are looking at having definitely it has done much better than what he initially thought about two years back when you across this business is the margin is around 7%, 8%, now the margins

are closed to around 12% for full year basis. Can we go it further higher and what it can lead to that, it is the product mix change, higher volume, what it could drive the margin further?

Hiranand Savlani: Basically if you see this nine-month number, nine-month number is showing 12.5% EBITDA and this 12.5% EBITDA because of this quarter negative EBITDA from the UK operation if I remove this then the number is close to about 13.7% or 14% EBITDA. So we are competitively at a good level, because that is what we guided earlier also, slowly every year we want to increase 1% EBITDA. So the initial guidance which we have constantly maintained after acquiring this adhesive business, but now looking at the scenario which is developing in India as well as US, because US is a very, very high margin product, so that operation has just started from January. March we are getting the additional machine in US then US operation will start delivering to UK as well as India. If suppose India will give just Rs.30 Crores of business on a full year basis then the number will be mind boggling, because that business is generating too high EBITDA and that we already published when we acquired this business. So we have to keep finger crossed, how this operation is working out, because it is too early to misguide or give their any statement that we are going to deliver this kind of EBITDA, but our expectation graph is very high from that product. We have to see how it is panning out this product in India because this is the new product for the country also. Nobody is there in this product in India. If you can open up the Amazon, Flipkart or anybody you can just log in and see the kind of price these steps role are available, so they are very, very costly in India compared to the global market. So we are bringing quickly because we are already completed the shifting of the plant, once that plant will be delivering the product for India may be after the new machines that is going to come in March, so we are targeting that from April onwards right now we are running three month backlog of order in US market.. Right now we are having three months order in hand we are unable to serve that market, because we do not have capacity, because we are having only old machine which cannot generate too much of volume, so now we have already ordered one of the new machine, March we are expecting then we have to see how that product is delivering and then the UK will come up from the Brexit issue. So UK will start delivering the EBITDA number to us. So keep finger cross once that product will be readily available for these two markets then the real number of EBITDA will come and then every quarterly we will be sharing with you.

Maulik Patel: Thank you and wish you all the best Sandeep Bhai and Hiranand Bhai.

Moderator: Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Congratulations on a good set of numbers. Just one clarification on volume growth and pricing growth during the quarter, so this quarter having been a quarter where we would have taken price correction for the new range of CPVC even then we have seen overall volume growth being quite similar to revenue growth. So can you just highlight what has been the mix there in the sense that?

- Hiranand Savlani:** Two things Atul, mainly PVC price has gone up in this quarter compared to the last quarter and CPVC price has dropped, so that is the reason that it is like PVC has gone up, CPVC has gone down, so it has neutralized the thing and that is the reason volume and the value growth is same and the product mix definitely CPVC is better, so that is why it is showing the higher in value terms.
- Atul Mehra:** That is from my end.
- Moderator:** Thank you. We have the next question from the line of Gaurav Nagori from Spark Capital. Please go ahead.
- Gaurav Nagori:** Thanks for the opportunity Sir. First question is what is the utilization at Kanpur adhesives plant?
- Hiranand Savlani:** Kanpur adhesive more or less utilized now almost you can say one plant is utilized almost 80% plus and another plant is also close to about 90%, so we are almost through in Kanpur, so now whatever the additional growth will come that will be supported from Ahmedabad operation.
- Gaurav Nagori:** Okay, so in that case will be transporting the goods from Ahmedabad plants to the east?
- Hiranand Savlani:** Nothing like that, the north and east market will be taken care by Kanpur plant and west and south will be taken care by Ahmedabad plant, so we will be saving a huge in logistic in the coming quarter.
- Gaurav Nagori:** Second question is if I heard is right you said Indian adhesive business, we had topline growth of 21% and volume growth of 21% year-on-year that is right?
- Hiranand Savlani:** Yes.
- Gaurav Nagori:** EBITDA margins of 16%.
- Hiranand Savlani:** 16% for this quarter and that is only Resinova, I am telling you. UK has given degrowth in the margin 1% degrowth, so that is why consolidated EBITDA margin for this quarter is 11.34%.
- Gaurav Nagori:** That is fine, but the question is at our value growth and volume growth is same, still we have delivered EBITDA margin of 16%, so it must be because of some cost product?
- Hiranand Savlani:** Product mix change that has given us the more margins.
- Gaurav Nagori:** Have you taken any price increase in all products compared?
- Hiranand Savlani:** No price rise.

- Gaurav Nagori:** I think we have substantial discount with our competitors in terms of cost pricing going forward once we have significant market shares increasing the price can you can give some support to the margins or expansion of margin?
- Hiranand Savlani:** 16% itself is a very high margin. We have never guided 16% margin into this adhesive business, so there are the fantastic margins, so we will be now more focusing on the volume rather than the margin because even we have said that even 14% we can sustain for a longer period itself it is a big thing, so these are the good times, we are table to get the margins but you should not expect 16% plus something addition into the margin. We will be first focusing into the growth then the margin will automatically follow, because there are so many trigger points for the margin. You rightly said that we are still cheaper in the market. We are adding the Ahmedabad facility, so lot of logistic advantage will be there, so these all are the benefit plus, we are doing lot of backward integration into adhesive side. So there are lots of trigger points available for the margin, but our focus is not right now in the margin. Our focus will be on the growth. First priority is to make this company Rs.1000 Crores Company then automatically margin will follow. We do not bother about the margin first the growth.
- Gaurav Nagori:** Lastly any capacity expansion plan at Kanpur given that we have already at 90% utilization?
- Hiranand Savlani:** Kanpur will not be the capacity expansion, whatever we can do the modernization can change the machine for the packaging thereby indirectly we can yield the capacity that part will continue in Kanpur, rest all will be taken care in Ahmedabad plan.
- Gaurav Nagori:** That is it from my side. Thank you.
- Moderator:** Thank you. As we have no further questions, I would like to hand the floor back to Mr. Priyank Chandra for closing comments. Please go ahead Sir.
- Priyank Chandra:** Thank you moderator. We thank the management of Astral Poly and all the participants for taking out time for this call and I hope the call was truthful for all of us. Thank you so much Sir and thank you all the participants also.
- Hiranand Savlani:** Thanks to the Dolat team for supporting Astral.
- Sandeep Engineer:** Thanks to everyone.
- Moderator:** Thank you gentlemen. Ladies and gentlemen on behalf of Dolat Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.