



“Astral Poly Technik Limited Q3 FY2018 Results & Business Outlook Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Astral Poly Technik Limited Q3 FY2018 Results & Business Outlook Conference Call hosted by Dolat 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 “*” then “0” on your touchtone phone. 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 Sir!

Priyank Chandra: Thank you moderator. Good afternoon ladies and gentlemen we welcome you all on behalf of Dolat Capital to the conference call with the management of Astral Poly to discuss the financial performance for Q3 of fiscal 2018 and future business outlook. Representing the management of 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 and which would be followed by the initial comments from Hiranand Savlani and after which we can move onto the Q&A. Over to you Mr. Engineer! Thank you.

Sandeep Engineer: Welcome you all to this Q3 conference call of FY2018. Let me start by letting you know what exactly is going on, on our expansion projects. I would be happy to let you know that the trial runs of pipes have started in the plant coming from the north at Gehlot near Jaipur and we have submitted the samples for necessary approvals with the government authorities and which should be through the next one or two months and in the next two months from now the plant will be fully operational and functional and will be catering the north market and part of east market from the upcoming plant at Gehlot near Jaipur. The expansion going on in the south plant at Hosur is underway, there are a few delays because of the construction activity was delayed, but the building is almost complete, the machines have started coming. The good part of that plant is we do not need additional government approvals because we have all the government necessary approvals to make the products there. So that plant also will be functional and operational especially on the expansion side in the next two months from now.

We would be also making fast moving fittings at the south plant at Hosur, which will take another three to four months would be operational. The expansion is also going on at Ahmedabad plant at Santej we are expanding our capacity on PVC side, CPVC side, compounding side and also on our borewell column pipes. The expansion in Ahmedabad is on track and in the next two to three months the plant would be fully operational and the capacity will be added to the Ahmedabad plant. Few additions are happening at the Dholka plant on the expansion of manufacturing of valves, which will also be in stream in next two months. So all our expansion plants, which we have communicated to the market and you all are on track and would be operational in two to three months from now.

Regarding adhesives the expansion is almost completed in Ahmedabad with the new products, which we have to launch and we will be launching a series of new products in next two months so we are starting a few launches from March, which will continue till April-May and we will have a substantial capacity and new range added to the adhesive in the next two months and the major expansion, which had happened is in Ahmedabad plant. At Kanpur we have changed lot of machineries especially on the packaging side from manual to automatic and that art of expansion is also going on at the Kanpur plant.

Regarding the business of Q3 the business was on track we have grown in CPVC, we have grown in PVC, we have expanded the market, and we expect the market to keep growing in next six months to one year. There is a good demand of pipes especially the organized players are growing and the same trend even continues for Astral. CPVC has given us good growth in last quarter and the same continues and will continue in this quarter. PVC also has given us good growth in last quarter and we are not only growing in the part of the plumbing pipes, but our new products the agriculture pipe is also growing, our electrical conduit is growing, our borewell and column pipes are growing, our casing pipe, which was launched is growing and our own product line of silent pipe PP mineral field, which was launched is also giving us good results from the market on the growth side. In Astral also we continue to explore new possibilities, new products and keep working on new products and we expect to add a few more new products in coming three to four months and when these products will be launched we will give you more details on the new products.

For the growth of piping business, we have added distribution network in last six months. Many cities we have added distributors who can give us more reach, who can give us expansion of business, who can give us growth and this addition of distribution network and addition of distributors will continue. The main reason is one is growth, second is reach and third is we are bringing so many product lines, but we need more distributors to cater and justify the new products, which we are bringing. We also launched a channel drain system with a German company Hauraton, which has shown very good results from the market, we have grabbed good orders for that. Our fire sprinkler system is on the verge of approval by UL, we have got the primary approval of UL and we have grabbed some good orders for the fire sprinkler system. We have also started our own insulation manufacturing and selling our own insulation for piping, so we now provide complete solution of piping right from insulation, hanger supports to any type of need from channel drains to manholes, to manhole covers, hot water pipe, waste water pipe, column pipe, so I think our range is very much complete and the addition still continues.

In the adhesive section, as I told you we have got good market reach, we are increasing the market reach, we are weak in south where we are focusing and concentrating, very good distributors have joined us in many regions especially in south, west and north and they have started giving us good reach, they are also giving us growth and this growth and reach and availability will be seen in coming quarters for the adhesive business. Adhesive business is doing very good for us.

UK business is growing Mr. Hiranand Savlani will be giving you more details on the UK business we are doing very good in UK business especially on the growth side, new product launch side, addition of products and US business also we have to make some corrections on the machinery part, which is over has started giving us growth, we are going to launch the rescue tape in India in next two months from now through our entire channel and people are eagerly looking to have that product in India. So UK and US on the number side Mr. Savlani will be throwing more light on it.

Overall the business for pipe and adhesive is buoyant showing good results, good growth and expansion of network reach, there are certain pressures on margins especially because the polymer is very volatile, which is one of the major effects. There are certain concerns on the other expenses also, which Hiranand Savlani will be explaining you in detail, but we assure you a good growth in Q4 and the quarters to come for both the businesses, pipe business and the adhesive business in the beginning space. So now I handover the call to Mr. Savlani to take you through the number and rest we can discuss in the Q&A part of the concall. Thank you very much everyone.

Hiranand Savlani:

Thank you Priyank always supporting the management and thanks to all participation and welcome to you. I am first highlighting you the main parts of the consolidated number then I will take you to the pipe and then the adhesive business.

If you see the overall consolidated number in Q3 the revenue has grown by 17.5% again that the EBITDA has grown up by 22.34% and EBITDA margins are more or less in a range what we have guided in past also that we are planning to be between 14% to 15% kind of EBITDA zone so this quarter is almost in the similar range of 15% EBITDA margin. Similarly last time also we communicated that now onward every quarter you will see that the topline growth will be a range, but the bottomline growth will be much faster and that is what exactly repeated in this quarter also, if you can see the topline growth is 17.5%, but the bottomline is grown up by almost 42%, so our focus will always remain on the margin side, at the same time we do not want to compromise in the volume growth also.

Secondly the polymers was on a downtrend, so because of that the value growth was not at par what the volume growth is there, so volume is always higher than the value, but now we are seeing that the polymer is on a uptrend so maybe coming quarter we may see that the value and the volume may remain same so from the next quarter onwards we are expecting that the polymer will continue for the higher zone and that may continue for another next two to three quarters. So then the volume and the value will remain same.

Now coming to the pipe side, the pipe side the value growth was around 14% in Q3 compared to that the volume growth was 28%. Industry as a whole volume growths were good because the shift from unorganized to organized is moving much faster than what we were expecting because of GST, demonetisation whatever you can say, but now the shift is taking place very fast. Real estate side still

there is no much you can say changeover has taken place still there is a slowdown in the real estate side, but because of the shift growth is coming faster, so we are expecting that the real estate giving us the growth may be couple of quarter or may be three quarter down the line then it will be a really good number we can see because then the project with this and all will start moving much faster rate.

At the EBITDA level at the standalone basis if you see we have delivered again the same zone what we projected 14% to 15%, this quarter specific issue was relating to the other expenditure where we have spend sizable money as I explained that we have grown at 28% and we are growing the market share so because of that we are spending a sizable money into the branding and the promotional activity. In Q3 last year branding and the promotional activity all put together we spend around Rs.13 Crores again that this year we have spend around Rs.28 Crores so practically if you see we have spend around Rs.15 Crores additional for the sales promotion activity, branding activity and all related to the marketing activity because as Mr. Engineer suggested that we are opening up a new distributor, we are opening up a new geography, we are moving to the lower villages level, so because of that to enter the market we are giving a lot of support to the distribution activity and we are spending lot of money into the dealers meets and all this activity, promotional activity and that focus will remain continue because we are gaining the market share. So for a growth we are spending some money into the promotional activity that is one of the reasons that EBITDA levels is more or less maintained in the same zone, but there are higher probability that in coming quarter the EBITDA percentage will improve, maybe few quarters we may continue this kind of activity, but overall it will improve our margin and one good thing has happened in the piping sector that if you see the last four year number the gross margin was always in the range of almost 30% you can say 25% to 30% so RMC was somewhere around 70% to 75% in last four years, but first time we are seeing that the RMC has come down below 70% so that is a good sign that the gross margin is expanding to the company, so this is going to help us in a coming quarter to improve our margin further from here on.

Now coming to the adhesive side, adhesive Resinova has given a very good number in this quarter particularly two reasons, one the growth is good because of the new product launch, because of the addition of the new distribution network, because of opening up a new geography and at the same time base effect also because last year because of the demonetisation the base were little lower so because of that also 35% kind of growth is there, but overall the demand scenario looks very good into the adhesive business in India and slowly and gradually we are expanding the margins also. We have reached the history high margins of 19% in this quarter so we do not guide that we will be maintaining the same margin in the coming quarter, we will always try to improve the margin and there are high probability that we can improve because still we are much cheaper compared to our competitor or leaders in the market in the adhesive zone. So there are still possibilities there that we can improve the margin from here on also, but our first priority will remain on the growth.

Now coming to the numbers of UK, UK has grown up after so many quarter it has grown up by 15% in this quarter in topline, EBITDA compared to Q3 it has improved substantially, but still it is not up

to the mark what we were planning earlier, we are delaying in our schedule of US operation. The US we are expecting all this new machines and whatever we want to do changes over there to improve the products and the capacity that we are expecting to come in March so after that the volume will start coming from that unit also and then we are going to open up the business for that product in India also and at the same time we want to open up the few new geography also like Europe and the UK so that will start giving us a sizable growth in the next year, so Q4 still will be low as far as the UK operation is concerned, but from Q1 onward we are expecting a reasonably high growth from our overseas operation. So net net I can summarize that piping business the volumes are very high, though we have driven a guidance of 15% volume growth we are growing much, much higher rate close to about 25% in last two quarters, which is very high and looking to the current market scenario we are seeing that the coming quarter also volume will be high only because that is what the trend going on in the market so we are expecting a robust number in the coming quarters also.

As explained value will start also coming because now the PVC and the CPVC are on a uptrend so because of that the value growth will be coming back to the normalcy equal to may be volume growth. EBITDA margins are well within the expected line of 14%, 15% with a scope to improve from here on, the high probability therefore that also. Expansions are going on very well in track so north operation will be up by March and south operation trials and everything may be completed this year, but the commercial production will come in Q1 next year. Sales promotion expenditure will not be continued like similar zone for the continuous basis, but yes right now we are heading the geography, heading the new distribution, so little bit higher zone will be there.

Historically if you see the last three four years performance, Q4 is always giving us the good number in terms of topline in the EBITDA and the bottomline level so similar kind of expectation we are expecting from this year also, normally it give 32% to 34% kind of topline growth in the last quarter on a full year basis, so overall piping business is growing very well for us. Adhesive also we are expecting that the growth momentum will continue because we are heading lot of new products also, lot of new launches are coming up in the near term, so that will also aid the growth to the business and UK will start giving us support from Q1 onwards, so that business also we are expecting to be as per our expectation from the next year onwards. So this is what the summary and now I want to open up the floor for the question answer session. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Yes, thank you for the opportunity and congratulations on a very strong performance. My question is regarding the capacity so what will be the final capacity after all the expansions are completed in next two, three months?

- Sandeep Engineer:** As we explained earlier that we are expecting that 20,000 kind of capacity will be in Rajasthan and another 15000 to 20000 will be in south, so will be around 40000 addition of capacity will be ready by June FY2019. So June 2018 we will be having additional 40000, so 137000 is there plus little bit increase in the capacity in the existing plant, so you can safely say it will be somewhere around 180000 to 190000 metric tonne by June 2018.
- Anshuman Atri:** Secondly regarding the capex now that we are nearing this year expansion so what kind of run rate can we see in the next two years or will see more expansions?
- Sandeep Engineer:** I think in the last concall also we have said that this year and the next year will be a capex so this year we are going to incur a sizable capex so that will be over next year will be only machinery part, so from there onwards the incremental capex will be very low and there will be a sizable jump you will see into the ROC because then the capex will be over and there will be a lot of free cash flow available then onwards so I am sure that next year will be another 60-70 Crores kind of maximum-to-maximum I am expecting the capex, so there will be a pause for some time because we will be having a sizable capacity, but the way growth is coming 25% kind of volume growth from last two quarters and if that run rate will continue in the coming quarter, which is we do not want to give the guidance on that way, but then I think we may have to do the capex in FY2020 also, so we have to see the market situation, how the market is spanning out, but incremental capex will be very, very low from hereon I can say like that.
- Anshuman Atri:** Thank you Sir and all the best.
- Moderator:** Thank you. We will take the next question from the line of Sonali Salgaonkar from BOB capital. Please go ahead.
- Sonali Salgaonkar:** Sir thank you for the opportunity. Sir my first question is what is your strategy on agricultural pipes right now because we have a sizable competitor who already has a sizable market share in this particular segment so you know what would be a strategy for gaining market share in this segment?
- Sandeep Engineer:** See we have already communicated in the past that we are a plumbing company we are not agricultural company number one thing. Our expectation from agri business is not that high, we do not want to make a huge volume growth in the agricultural side because we also know there is a lot of pressure on the margin into the agricultural pipe because there is a cut-throat competition going on there, so we will be only a supportive company to the agriculture to our existing network and we will be selling agriculture at a reasonable margin so whatever growth will come we will focus on that, we do not want to jump in for the high volumes without margin so our strategy is very clear we are a plumbing company, precisely the CPVC piping company I can say so our focus will always remain on the plumbing side. Agri side we are there we cannot say that we are not selling the product, but our ratio to the topline will be very, very miniscule. And secondly earlier also we have communicated that

many distributors are common so for the reach to them we have to add this product and secondly because of this product we are getting the business of plumbing side also, column pipe also, so that is also helping us so because of that we have to be in the agri business, but our focus will continuously remain into the plumbing side.

Sonali Salgaonkar: Sure Sir. Sir second question is on A&P spends now as you rightly said you will have to incur a sizable amount of A&P spends for expanding your network and brand management over the coming quarters, but you know going ahead say in FY2019-FY2020 where do you think would be a steady state number that we can expect for A&P spends even if it is a ballpark number percentage to net sales that should be very helpful Sir?

Sandeep Engineer: See basically whenever we are adding the new network, new distributors you can say a new geography that time you have to spend a little high, but once it is stabilized then that kind of spend will not continue, so right now as you see the last two quarters numbers are growing very fast and lot of change is taking place from unorganized to organized so everyone want to capture the market share, so for that we have to spend more money for that side, but I am sure that these kind of activity will be for the initial period may be another two quarter or three quarter then after it will stabilize and then that will not be that high. Secondly if you are growing at a higher rate 20%, 25% kind of volumes or may be as I told you that now value will also coming back so when you are growing at such a high scale at a high base then I am sure that percentage term it will not go up, maybe a particular quarter scenario it may be there but on a yearly basis if you see that number it will not be high in terms of percentage because company is growing at a fast scale. So percentage term definitely it will be low, you will not make up our specific mind that we will be spending to this it depend which geography we are growing how many new distributor we are heading, so it depend on multiple things, but I can assure you that percentage terms it will not be high what is today.

Sonali Salgaonkar: Sure. Sir you mentioned that the outset during your initial comments that you have added more distribution touch point this quarter so possible to quantify how much is your total tally on distribution dealers and touch points and separately for pipes and adhesives if possible?

Sandeep Engineer: See at this stage it is not handy number with me, but surely every year in the analyst meet presentation we give that number also so this year also once we will be completing our full year we will come up and we will share that presentation of analyst meet there definitely that number will be there, but it is growing reasonably good level.

Sonali Salgaonkar: Sure. Sir do you maintain your guidance for pipes and adhesives across for Resinova and Seal It as well right, at this point?

Sandeep Engineer: Yes, on the contrary we are growing faster in volume than what we have guided.

- Sonali Salgaonkar:** Yes Sir but you had earlier mentioned that Seal It's revenue is expected to grow at about 8% on the topline whereas in the nine months it is little less than this so you want to modify the guidance at this point?
- Sandeep Engineer:** No way, but at the same time you see that the Resinova is growing faster. So overall adhesive portfolio is doing well for us so we do not see any problem into that, but you are right that because of this Seal It, but Seal It has also had delivered good number in this quarter, they have grown 15% so I am sure that coming quarter will not be disappointing because this quarter I mean Q4 is the last quarter for US then after Q1 onwards US will start giving us the number, so there is no region that the Seal It will be disappointing us.
- Sonali Salgaonkar:** Sure and last question, Sir, post all your expansions, which you have mentioned in your initial comment, which will be coming on stream over the next two, three months, our overall pipes capacity will stand at about 175000 right?
- Sandeep Engineer:** Yes.
- Sonali Salgaonkar:** Sure. That is it from my side. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Ritesh Shah from Investec capital. Please go ahead.
- Ritesh Shah:** Thanks for the opportunity. Sir my first question is broader at an industrial level how much the spitting of percentage of value and volume usually?
- Sandeep Engineer:** We have in past couple of concall we have communicated that the management does not share all this information so I am very sorry to say this thing, but we are not going to be in a position to share this.
- Ritesh Shah:** Sir I am looking at more from an industry perspective I am just trying to walk around and see if in terms of incremental driver for a margin that possibly we can look at going forward if you are lower on this number as compared to the peers across specific companies so is there an opportunity over here?
- Sandeep Engineer:** I do not have even industry number if you have that number please share it with me I will be very happy.
- Ritesh Shah:** No problem. Sir my second question is on the expansion we did not speak about the east expansion so I just wanted to know what is the status is over there?
- Sandeep Engineer:** I think we are working very close for that location also, but still we are not finalized the location, we are working for that, but we are quite confident that the next year east will be there.

Ritesh Shah: That helps. Lastly can you provide some more colour on the number of distributors so if not number basically if you can provide more colour on what exactly we are doing on the distribution channels specifically on the adhesive side given we are planning to launch a several new products over next couple of months so any specific colour will be quite useful Sir?

Hiranand Savlani: See adhesive side also as Mr. Engineer communicated that in a certain pockets we are very weak like he mentioned the south also to you that there also we are adding the new distributor and now we are adding the large ticket distributor so that distributor, which can contribute a sizable revenue to us and they can help us in launching our new products also so based on that way we are doing the selection of the distributor. So we have in a recent past added sizable distributor and almost you can say all the four zones of the country. East we are still growing at a slow pace, but other three we are continuously adding the distributor and next year also we are targeting to add many more distributor into this segment because as Mr. Engineer said we are going to add few new product line also there we need a good quality and the large ticket distributor who can help us because still the Resinova number is not there what we are planning because the way we have done the expansion and all, but all this new launch, all this adding the distribution network, adding the geography is always taking time so because of that the full number of Resinova you will see next year and our expectation graph even in the last concall also I communicated that our expectation graph is very high for FY2019 from the adhesive business because UK is not grown as per our expectation similarly Resinova has done lot of hard work for adding the new product, expanding the network and all, so number conversion has still not taken place what we are expecting so that will be there in FY2019, so our expectation is very, very high in FY2019.

Ritesh Shah: That helps. Sir last question on adhesives what is the B2B and B2C mix for us?

Hiranand Savlani: I think B2B is very low, I think majority of the business is coming B2C, next year onward you will see B2B also improve because lot of new products are there relating to the project side of the business so there you will see that number will shoot up, so that is the reason I am repeatedly telling that wait for some more time for the adhesive side to improve, Resinova though has given a good number in this quarter, but all this benefits of expansion in the new product will be there in next year.

Ritesh Shah: Sir I have more questions I will join back the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Ayush Sharma from Investec. Please go ahead.

Ayush Sharma: Thank you for the opportunity. Sir I wanted to understand the forex income, which amounts around 3.5 Crores for this quarter what is the like how can we derive that number and what is the basis of it and further does it have any component of it under other operating income as well?

Sandeep Engineer: There are small element of forex gain into the other income also, but major portion of other income is the interest income on our short term investment in liquid funds because what happened that is we have to do the payment to our overseas supplier Sekisui in a bulk so say for example my payment is due on Thursday, which is amounting to Rs.10 Crores to Sekisui so I have a surplus fund on Monday may be 3 Crores, I have a surplus fund on Tuesday another 3 Crores then I have surplus fund another 4 Crores on Wednesday, so we are parking into mutual fund and then Thursday we withdraw all from the liquid fund and give it to the Sekisui Rs. 10 Crores so that is the sizable portion into the other income because shorter period we park into rather keeping the ideal fund because we are not taking any rupee loan working capital loan from any of the bank that is the outstanding zero right now, so we are not availing any rupee loan from any of the bank. So because of that funds remain always ideal with us and now the way cash flow is coming to us so that element will increase so because of that temporary we are parking there and we are earning the interest income over there so that is the main element into the other income. Yes, at the same time more element of foreign fluctuation is also there because as per the accounting treatment any profit or loss relating to the acceptance part we have to show it in a finance cost and that is what you can see it is been square up against the interest expenditure in Q3 and whatever the gain is there relating to some raw material related payment and may be some capital expenditure related payment that has reflected in other income so some portion in other income is related to the fluctuation also and majorly the acceptance related gain is in this fluctuation income in finance cost.

Ayush Sharma: If I got it correctly any profit or loss arising from these investments, which we are making, is basically going into other income?

Sandeep Engineer: Yes, that is not the loss because we are parking only liquid fund, liquid fund I have never ever seen in my history that they are giving us the loss because it is a temporary parking and there it is a eighth grade papers only so and that too two days three days or five days only because it depends on the payment cycle days for us to the Sekisui so because of that I have never ever seen, but yes the return will be very low, but as a policy of the board we do not park this money to any of the equity related fund or any other it is a temporary kind of investment and purely on a liquid funds.

Ayush Sharma: Sir these liquid funds are in foreign currency?

Sandeep Engineer: No foreign currency it is lying with the mutual fund, like we are parking with Birla mutual fund only so it is Indian mutual fund only no foreign funds will be there.

Ayush Sharma: Sir that income being netted off against finance cost?

Sandeep Engineer: No that income will be in other income. The finance income net off is only acceptances are there in our balance sheet that is our payables against that whatever the income is there that is net off against this that is because of the accounting principle we have to follow that.

- Ayush Sharma:** Sir but forex gain that is coming from where exactly Sir?
- Sandeep Engineer:** See like I can give you example that if Sekisui I am buying raw material for 90 days and then I want to make a payment at 180 days to Sekisui, so I need 90 days extension into that so on Sekisui line we draw the acceptance on the line of Sekisui and there we are getting the money at the rate of close to about 2% per annum basis, okay, now that is in a dollar denominated so in that if the currency appreciates we are getting the benefit and that is reflected in the finance cost, if it is a positive then it will be net off against the interest, if it is a negative then it will be added into the interest cost, so basically it is a finance cost for that.
- Ayush Sharma:** Sure Sir. So this quarter since rupee has appreciated that is why we have got a gain?
- Sandeep Engineer:** Yes, because otherwise sometime we have to borrow from banks and rupee borrowing will be very costly compared to the Sekisui line, which is very, very cheap for us and last three four years we are seeing that the currency is quite stable and that is helping us.
- Ayush Sharma:** Sure. So next quarter there might be a negative impact of this?
- Sandeep Engineer:** Yes, because rupee is quite stable it is not moving it is plus minus one percent is there so I do not see any big volatility there in currency.
- Ayush Sharma:** Sure Sir. Sir my next question would be on the inventory levels, will it be possible for you to share inventory levels at plant and supply chain currently?
- Sandeep Engineer:** Inventory levels are little higher at the end of December because we are waiting for a peak quarter because the growth is very high in the current quarter also so we have to keep little higher inventory because we know that we want to capture the 30, as I mentioned 32% to 34% of the growth in last quarter so naturally we have to keep inventory level little higher, but again the year end it will come down. So temporary we have to keep inventory on a higher level, channel they are on a regular inventory earlier they were not keeping the high inventory or low inventory they were working on a lower inventory because of the working capital related issue to the distributor because of demonetisation or may be because of this GST also some distributor were care, but now I think channel is also on a regular kind of inventory.
- Ayush Sharma:** Sure Sir. Thank you Sir that helps.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Thanks for the opportunity. A couple of questions I have. You mentioned about the shift from unorganized to organized and we have seen the strong growth across the peers also, now the

differentiation between the unorganized to organized price and if you look at some of the other industries the building industry particularly tiles where the unorganized is not losing the market share what exactly happening in the PVC pipe industry Sir?

Sandeep Engineer:

Major thing today only a big builder came just now before the concall and we had a detailed meeting. The main one of the organized peer's benefit is that RERA now they also have to guarantee their building, their construction and plumbing is something very critical so they would always prefer now to use products, which have certification, which have value, which are proven and which is backed by some organized player this is one of the key benefits, which is now coming to quality players and we also have to give warrantees to builders because they in turn have to warranty their products and this is well known to the market, it is a very open fact. Secondly we go with all the approvals, we have NSF approval, we have UPC I approval, we have ISI approval, we have one of the best quality labs we have raw material testing labs we have compound testing labs and we showcase this to major customers and this also helps us in a big way because so many qualities of CPVC is coming from different ends and everyone is aware and you cannot expect certain price where you get a quality CPVC also so that is another thing that we have a quality, we have procedures, we use the best quality material, we have approvals and so that is another crest level, which we and organized player give to the market. Third is the requirement and consistency with all the taxations, which they can credit immediately GST and they upload their credit we are on track, they are on track, everybody is in track that also is giving equal advantage to organized players, so there are lot of things, which help organized players reach. Now we have plant in three parts of India, we can give service very fast, today only we had a huge order in south in Chennai morning we delivered and by evening the builder or the customer will have the product at his end, so reaching another thing, which organized players are now giving. All this factor put together there is going to be growth for organized players, there is going to be a good future for organized players, also organized players have complete range of products so when they buy the products, a distributor, a dealer, a customer he gets every products from one source, a lot of factors are coming in picture, which I see from one year and specifically last six months, which is adding to the growth of organized players.

Hiranand Savlani:

Maulik what I can add what Mr. Sandeep had said that if you see prior to GST the biggest problem was that the local level players were getting lot of advantage. I think in last concall also I have given a very nice example how they were beneficiably because some states there was octroi say for example of Mumbai city when we were selling the goods from Ahmedabad because we do not have a plant over there so we were selling from Gujarat so we used to pay 2% CST then Mumbai was having around 5.5% octroi duty so we were loading that 5.5% then there was a logistic cost, so because of that we were always 7%, 8% costlier than the local player and now with this change and GST come play and now everybody is having a level playing field. Similarly so many states were having entry duty concept so entry tax was there so some states were charging like Himachal were charging entry tax for 2% or so, like other states every state were having different local level tax also and 2% CST was across the board, so all these things have gone away from the system. Secondly as we know

everything is open in the market that the short cut route with the unorganized players were playing I need not to explain all the shortcut route on the concall, but we all know how India was functioning so that also slowly and gradually it is reducing I cannot say it is a zero level today, but slowly and gradually I can say it is reducing at a faster pace so once this e-way bill will be there then it will be further faster pace, so that all are ultimately helping to narrow down the gap between organized and unorganized and as you know organized player purchasing power will always be stronger than the unorganized player so that always going to give the hedge whatever my hedging cost will be there the unorganized player hedging cost will never remain the same, so all this things are also in favour of the organized player, so because of that capex coming down, so that is also helping all the organized player to grow the volume faster it is not specific to Astral, but it is for the all organized player.

- Maulik Patel:** And is the shift happening in what agri and plumbing industry right?
- Hiranand Savlani:** Yes, you can say that way, but agri we do not have a much volume we have a limited presence so we cannot comment much but yes plumbing side it is definitely there. Plumbing is more because the plumbing is are the products, which are mainly concerned with RERA things and builders, agri is more on the farmer side, so agri there is a shift, but what I can frankly say is agri will still continue to have the part of unorganized people. So agri does not add too much value so transportation also plays the equal role in agri, but in plumbing the value is very high so the percentage of transportation role comes down also.
- Maulik Patel:** One question again on the financials in this financials we have extreme fluctuation of 3 Crores, in the earlier question so just want one clarity the CPVC resin purchase from the statutory it on a yen dominated or dollar dominated?
- Hiranand Savlani:** It is a dollar dominated.
- Maulik Patel:** So I think that, now let us say the rupee depreciate probably against the dollar the outstanding liability whatever the increase happen on it that will be passed to the P&L or it will be directly adjusted to the net worth?
- Hiranand Savlani:** No it will be 100% through P&L, that is accounting guideline so we cannot change that thing, so after Ind-AS you cannot square up with any of your losses against your net worth so you have to pass through the P&L only.
- Maulik Patel:** And last question, what is the capex for this financial year and the next year you said about 70 Crores approximately?
- Hiranand Savlani:** We have given earlier the guidance of Rs.150 Crores for two years for FY2018 and FY2019.
- Maulik Patel:** Great Sir. Thank you.

- Moderator:** Thank you. We will take the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thanks for taking my question Sir. Sorry I got disconnected in between, you said the capacity is expanding up to 175000, 180000 tonnes by June 2018?
- Hiranand Savlani:** Yes.
- Achal Lohade:** Would you be able to comment in terms of what is our geography mix with respect to north, south, east, west, broad or even in four regions how do we look at it?
- Hiranand Savlani:** Sorry we do not share all this information I am extremely sorry for that.
- Achal Lohade:** No problem Sir and in terms of the gross margin improvement you said how do we explain the gross margin improvement is it on account of the product mix or purely on account of the inventory gains?
- Hiranand Savlani:** No in fact there was a loss in inventory in last quarter, if you see that the PVC price drop in the month of October and November then from December end onwards it started going up so maybe inventory gain will be there little bit in the Q4 than the Q3 if you can study if you can visit the Reliance website there the PVC price chart is there and there is a date wise chart we have given over there so you can download from there and you can see the trend of polymer so I do not see any gain over there in the previous quarter on the contrary little loss will be there, we have not counted exact number but 100% I am sure it was not a gain.
- Achal Lohade:** And just one more question with respect to the DWC what is a thought process, we do hear that people are setting up capacities for the HDPE pipes so just wanted to understand your perspective on the same?
- Hiranand Savlani:** We are already working on a few new products and we will bring you one by one and will be in line with the market and even with the good capacity in short time from now.
- Sandeep Engineer:** So we are evaluating basically and we will come back once we will be through with the things.
- Achal Lohade:** Right, but any colour on this size of the opportunity?
- Sandeep Engineer:** We cannot tell you anything.
- Hiranand Savlani:** Let us evaluate, first we will evaluate understand the opportunity, understand the margin profile, understand the scale and all this thing and then we will decide what to do and then we will tell you all this information.

- Achal Lohade:** Got it and just last question in terms of the volume growth guidance how do we look at for the next couple of years, a) the industry growth and b) is also shift from unorganized to organized so how do you look at the growth for us for next couple of years for pipes and the margins?
- Hiranand Savlani:** I think let we complete this year then we will be having more sense because we want to also see this kind of high growth territory so 25% plus volume growth how long it is sustainable or not so we are also evaluating the market. Last two quarter onwards it is a robust growth even we were not expecting that kind of growth, but I am sure that coming quarter will be good only, so we have to come out from our earlier guidance from 15% plus volume growth, so definitely we have to go little higher side, how much and what I think let we complete the last quarter then we will come up with the guidance for the next year.
- Achal Lohade:** And just on the margin front?
- Hiranand Savlani:** Margin we are quite confident that whatever the existing levels are there it will be maintained on the contrary it will be improved because last quarter historically gives such a higher number and margin also last year I think it was around 16% EBITDA margin so we are quite confident that this year also the margins will be better in the last quarter.
- Achal Lohade:** Fair point. Great Sir. I will come back in the queue. Thank you so much.
- Hiranand Savlani:** Thank you.
- Moderator:** We will take the next question from the line of Ayush Sharma. Please go ahead.
- Ayush Sharma:** I wanted to know if it is possible for you to share the percentage of volume or value share of agri pipes?
- Hiranand Savlani:** Sorry, we do not share all this information we have communicated since last two years that all this internal data we have stopped sharing, so we do not want unnecessary unhealthy competition within the players.
- Ayush Sharma:** Sure Sir. Sir is it possible to share the targets for future in PVC and CPVC I know currently you do not share the present mix, but what are we targeting for future?
- Hiranand Savlani:** Nothing is specific in mind that we want to be read, but we can only say that we will be more focus company on the CPVC side and the plumbing side.
- Ayush Sharma:** This is a last question, are we looking at any product in affordable housing and something, which is very specific for affordable housing?

- Hiranand Savlani:** I think the way PVC has gone into affordable housing because the way CPVC price had dropped in last one year we have already dropped 15%, 20% price so now it can be easily accepted in the affordable housing and already many projects have started flowing to us also.
- Ayush Sharma:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Sunil Shah from Axis Securities. Please go ahead.
- Sunil Shah:** Sir my question is more in terms of long term, so last two three years we got into adhesive business, we did acquisitions, now we have integrated those operations and now we are coming back on the growth path again and again so what is our next three years roadmap in terms of how we are positioning ourselves or if you could give us something understanding on that?
- Hiranand Savlani:** I think Sunil we have already communicated earlier also that we want to see a 1000 Crore company as early as possible in adhesive field so keep finger crossed we are working all hard and we are all dedicated for that so our expectations are always high from that business and so far we are going as per the track may be little bit here and ups and downs because of this US and all this things, but that is a part and parcel of any business journey, but overall I can say that we are on a track and we will be doing better only in the coming years.
- Sunil Shah:** Fine, thank you very much Sir and all the best.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Priyank Chandra for closing comments.
- Priyank Chandra:** Thank you moderator and on behalf of Dolat Capital we thank Mr. Sandeep Engineer, Mr. Hiranand Savlani for taking out time for the call and we also thank all the participants and hope the call was useful for them. Thank you so much everyone.
- Sandeep Engineer:** Thank you everyone and hope to get reconnected again personally after the Q4 results so thank you everyone.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Dolat Capital that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.