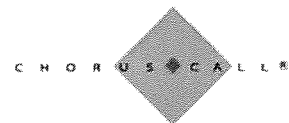




**“Astral Poly Technik Limited Q1 FY18 Earnings Conference  
Call”**

**August 08, 2017**



**MANAGEMENT    MR. SANDEEP ENGINEER – FOUNDER & MANAGING  
DIRECTOR, ASTRAL POLY TECHNIK LIMITED  
MR. HIRANAND SAVLANI – CHIEF FINANCIAL  
OFFICER, ASTRAL POLY TECHNIK LIMITED**

**MODERATOR:    RITESH SHAH – INVESTEC CAPITAL SERVICES**

**Moderator:** Ladies and gentlemen, good day and welcome to Astral Poly Technik Limited Q1 FY18 Earnings Conference Call hosted by Investec Capital Services. 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 Ritesh Shah from Investec Capital Services. Thank you and over to you, sir.

**Ritesh Shah:** Thank you, Stanford. Good Evening, ladies and gentlemen. On behalf of Investec Capital, I welcome you all to Astral's Q1 FY'18 Conference Call. We have with us Mr. Sandeep Engineer – Managing Director and Mr. Hiranand Savlani – Chief Financial Officer. Sandeep bhai, over to you for initial remarks, post that we can have Q&A Session. Thank you.

**Sandeep Engineer:** Firstly, we welcome you all after the Q1 results. It is a very short time we have given you after the result because all the senior management we are traveling on a Distributor Annual Meeting abroad and we have to leave today. So, we made sure that we talk to you before we leave after the Q1 results. As Q1 results as you have seen, Q1 was challenging due to a lot of uncertainties mainly due to GST implementation. There was great fear in the market infused due to different rumors specifically on old stocks, credits and this confusion led to not having the required growth especially in the last month of June people were more afraid of holding stocks and what would be the effect of the credits which they may get or they may not get and the old stocks which they have they wanted to destock all those stocks. Still we managed to have 1% to 2% growth on the tonnage side, (-5%) degrowth in the revenue terms. There was an effect on the profit we had to pass CST at some of the locations. The people wanted to buy directly from the plant when they wanted to buy from the warehouse or the depots; they were losing on the tax front. All these challenges we had to face in the first quarter. But GST was at the end implemented successfully and in the month of July we have seen a very positive result after the implementation of GST. We are back on the growth track; we have grown in double-digit plus in terms of revenue and tonnage in the July month. We expect a good growth and we expect to be back on track in this quarter. We also intend to cover up some of the growth which we lost in Q1 and we are sure that we will cover up this growth in Q2 numbers.

As far as the new expansions are concerned, in the Piping business, Rajasthan plant is about to get completed in the month of November, December, the construction of the building is on way, construction is happening at a good pace, machines which we have ordered will leave from abroad and I think we will need the time schedule of starting that plant at Rajasthan. Capacity, products will be shared with you on a broader base by our CFO.

Hosur has got 33 kVA and Santej plant has got the 66 kVA substation, up and operational. So we have ample power of growth at Santej and Hosur plant. At Santej, we have started construction work and we will be undergoing capacity increase of certain product lines at Santej in coming six to eight months. At Hosur, the construction is on, we are almost doubling the capacity of Hosur plant and we intend to start the production at Hosur in the month of March of this fiscal. At the Dholka plant, where the 66 kVA substation is almost on the verge

of getting operational, it is only delayed because the heavy rains and the floods which came in and around Ahmedabad in last two-three weeks. We have intent to start the 66 kVA power substation at Dholka in next two-three weeks and then we will also undergo an expansion drive of increasing the capacity at Dholka plant.

In Piping business, there is work going on at new location, existing location resolving the power matters, increasing the capacity, increasing the new product which we need to bring into the market and capacities of the same. After overcoming all the challenges of GST and seeing the growth of Q2 back to normal or even better, we feel that all these capacities which will be added to Astral will be justified. At the same time, we are also on a drive of increasing our reach distribution network, spending more on certain branding activities, we had a good spending in the first Q1 but we are doing some promotional branding activities also in Q2 with the new movie which is coming up by Akshay, 'Toilet: Ek Prem Katha' where we have a very good exposure because it is a subject concerns Astral's business in Piping and Drainage and it helps Astral in a very big way to get the right footage of branding through that movie.

With the positive vibes of successful implementation of GST and from what we have seen in July, we are hopeful that whatever the capacities we are adding and whatever the lost growth we have done would be recovered and we will be again growing this fiscal at the numbers which we have rolled from the day one that we want to grow in double digit in revenue and we want to grow at least 18-20% in volume terms in this fiscal. So I am very optimistic that we will be achieving this number.

As far as Resinova Adhesives business is concerned, there the GST transition was more challenging because we have smaller distributors, we have a number of products, the network is through dealers, the dealers at some regions were not understanding the change of GST but at the end of the first month, we see proper transition happening in the distributors and the retailers and the users in Resinova business and we are same way optimistic of getting into a good turnover number in Q2. I do not see any problems in the Resinova business to come back to the normal of the growth number of (+20%) in this quarter and back to the growth number of around 20% at the year-end for Resinova is also on track.

Ahmedabad plant which was undergoing expansion with various products to be brought from Kanpur and new products to be added, is almost completed. We have started most of the Resinova products which are made in Kanpur, in Ahmedabad, with a very bigger capacity and automization. We are also starting a few new products in Ahmedabad plant and we will be adding a few new products where we feel we are lacking the segment of construction chemicals in coming year from Ahmedabad plant. So I see a very optimistic future of both Piping business and Adhesives business with the implementation of GST. GST would help Astral to grow in coming quarters for this fiscal and coming years. GST is very positively implemented and we see a good growth of CPVC, PVC and Adhesives for this quarter.

SEAL IT UK has grown 11% in GBP but in rupee terms it has degrown by 5% because of the currency depreciation by 14%. Pricing in UK has been revised upwards from July '17. We will see a good improvement in EBITDA margins in coming quarters in this fiscal when it ends.

The US business is getting on track. We need to make certain changes in the machines to increase the capacity which is underway. All the required changes in the machines, automization, will be completed in the month of August. So we will see a good growth of US business from September and by November or December we will be launching the product in India which is what our target dates are.

We are also moving on a positive direction in the Kenya business where we have started our Fittings, there is a growth there. The only hurdle in Kenya at present is Kenya is undergoing election. So there is a slowdown in economy which would be over in the month of August. So we are seeing a positive growth in Kenya operations from September in the fiscal end this year.

So with Q1 challenges which you all have faced, we have overcome a challenge of implementation of GST and the way forward is very positive, very good for Astral.

We thank you for joining us on a short notice on this concall. We will have discussions on all the points which you bring up in question-and-answer session.

I will hand over to Hiranand bhai to take you through the numbers for this Q1.

**Hiranand Savlani:**

Good afternoon, everyone. I will take you through the individual company wise numbers and then we will update about this quarter and then whatever your questions are there we will handle one-by-one. So as far as this Astral is concern, Astral had degrown in value terms by 5%, last year it was Rs.316 crores, this year it is Rs.300 crores, so roughly about 5% degrowth in value terms. In volume terms, last year it was 19,355 MT, against that this year it is 19,539 MT, so roughly about 1% growth in volume terms. In terms of EBITDA if you can see, last year EBITDA was around 13.10% in amount of it was Rs.41.50 crores, against that this year it is Rs.41.26 crores, so in percentage terms it is 13.75%, so practically if you see that there is no drop in the percentage terms, but in absolute level that is flat because mainly value terms there is a degrowth.

If you see the Resinova, we have grown by value terms 9%, last year it was Rs.72 crores, this year it is Rs.78.6 crores, roughly about 9% growth in value terms. Volume it is very difficult to arrive because of the different categories of products – Liquid, Solid and all these things. So we are not sharing normally the volume growth because we do not exactly know the volume of that. In terms of EBITDA, last year it was Rs.10.26 crores, against that this year it is Rs.8.79 crores, last year 14.29% EBITDA was there, this year it is 11.20% mainly because of destocking, most of the distributors were buying the products from our depot and from depot they were not able to get the credit of excise duty. So most of the distributors we have to supply directly from the factory in the month of May and June and there they were getting the benefit of excise duty but they were losing CST, so we have to pass on CST from our pocket,

otherwise no distributor was ready to take the material. So in that case, we have dropped the EBITDA margin by roughly about 3%.

In terms of SEAL IT, as discussed by Mr. Sandeep that in constant currency basis, we have grown up the company by 11% but in rupee value it has degrown by roughly about 5%. Last year the sales in GBP terms was 3.9 million, this year it is 4.4 million in GBP terms and in rupee terms it is Rs.38.19 crores, this year it is Rs.36.32 crores, so practically 4.9%, there is a drop. In EBITDA terms, last year it was Rs.3.36 crores, this year it is Rs.2.1 crores. So basically, there is a drop of EBITDA by 3%, last year it was 8.90% EBITDA percentage, this year it is 5.79%, mainly because this currency devaluation, they were unable to pass on that to the market immediately so now they have increased the price from 1<sup>st</sup> of July, so we are expecting that the EBITDA improvement will be there in the coming quarter.

In terms of consolidated number if you see, last year it was Rs.419 crores... net I am sharing you, gross sales minus excise duty, this year it is Rs.407 crores, so roughly about 3% value degrowth on a net sales basis on a consolidated level. In terms of EBITDA, last year it was Rs.54.74 crores, this year it is Rs.50.74 crores. In terms of percentage, last year EBITDA was 13.03%, this year it is 12.45%, so roughly about 0.5% drop in EBITDA percentage compared to the last year. So this is about the summary of the number.

We also understand that this time because of our busy travel schedule we have to quickly conduct the con-call, so meaning might not be having all this number, so after con-call also if somebody had left out without number, you can call us and we will clarify that things.

Now, coming to what happened in this quarter because of that we were unable to grow. Most of the things Mr. Engineer has explained. Nothing any specific reason other than the GST, mainly because of destocking this has happened and that we are seeing a very rebound in the month of July which we cannot tell you that you consider that as a benchmark for this quarter because this month of July the Astral volume growth was 19%. So that does not mean that August and September also we will be able to grow 19% or 20%. But yes, we are getting a positive vibe from the market that people are slowly and gradually they are moving into the GST regime and it is giving us the positive things about the market. But again, we have to wait for another couple of months then we will be able to guide you exactly that how the market is going in which direction.

Similarly, EBITDA percentage has dropped if you can see the number that is mainly because of the other expenditure and the employee cost because normally Astral is known for the 10, 15% minimum growth, this quarter there is a minor degrowth, so because of scale, it is showing in percentage terms that the other expenditure has also jumped up and the employee cost has also jumped up. Other expenditure mainly because of the self-promotion related activity because Astral spend sizeable money into the self-promotion and branding activity in the month of April and May because the IPL match was going on and we sponsor the three teams in the IPL and we spent sizeable money into the hoardings and other branding activity and sponsoring the tickets to our distributor and dealer community. So both the company, Resinova and Astral,

spend sizeable money into the branding activity. That is the reason if you see the consolidated basis, the other expenditure has jumped up from 10% to 15%, so 5% jump in terms of percentage is there. That is mainly because of the branding activity. In Astral alone, last year the branding expense was Rs.4.5 crores, this year it is Rs.13.5 crores, so Rs.9 crores jump is there only into the branding activity in the first quarter. So coming quarter it will not be a sizeable amount and on the contrary it will be a drop into that. So that is the only reason that EBITDA percentage terms it is showing slightly dip, otherwise if you see the RMC and all gross profit margin also, all are in a positive direction, so we are very-very positive about the profitability in the coming quarter.

Secondly, 66 kVA line Santej plant is already installed, 33 kVA line is already installed in south, so there is no problem in terms of power in the coming quarter. Secondly, with the installation of 66 kVA and 33 kVA, we will be able to take the excess to the open access, so we can buy the power on exchanges and we are expecting that will be a sizeable saving because of the 66 kVA into the Santej and we are expecting that maybe first week of September Dholka will also be ready with 66 kVA. So there also we can expect a sizeable saving into the power cost in the coming quarter.

Another reason that Resinova was able to grow only 9% in value terms in the last quarter mainly because of the implementation of SAP. Like in Astral also, when we first time introduced the SAP in the company, we faced a lot of teething problems and we lost a couple of weeks sales in Resinova also because we started the billing in the market roughly about 15 of the April. So first two weeks, we lost the sale because of implementation. But we know that this is the temporary kind of problem to the company but long-term with this SAP, we will be able to generate a very beautiful report and the business decision will be a much better position. So now we are through with the SAP and we are happy that we have successfully implemented into the Resinova also and going forward it is going to help us in a big way to the company. So this was overall scenario of the last quarter.

Now, we are opening up the floor for Question-and-Answer Session. Thank you.

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- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Sir, just a couple of questions; One is in terms of both the businesses. If you could briefly highlight in terms of what is the general extent of days of inventory that the channel holds and now that it has been largely let us say liquidated before GST, so are we seeing currently this restocking happening or as such it is normal demand that is coming in?
- Hiranand Savlani:** If you see that in the month of July, the inventory levels were very low in the distributor level and even at the dealer level also which we are saying that now restocking has already started and that is the reason that Astral we are able to grow 19% in volume growth in the month of July. But again, we are repeatedly telling the investor community that this cannot be considered

as a base because we have to see how the situation is there on the ground, we have to see the number of August and September, after that we will be able to know that how the growth pattern is changing in the market for the Piping sector. I think Sandeep bhai can add more about this.

**Sandeep Engineer:**

Even there would be a normal growth happening because the channel used to keep a stock of at least one month, the SKUs are many, and the channel was maintaining a good amount of stock. So they de-build the stock right from the dealer level to the distributor level and they would want to keep that much stock. Further, there would be a growth in business in more than at least in double digit in the volume terms and value terms. Because that was what was happening, and the channel would move faster because the organized companies demands are increasing and people want product from organized companies. So as things go ahead in the GST regime, with the matching of the numbers coming and then the e-way bill coming, everyone says that the organized players will have a big role to play in this market in terms of growth and in terms of servicing the market under the GST regime. I see the growth pattern in a positive direction in coming months.

**Atul Mehra:**

Sir, in terms of transition to GST both the businesses have now seen like smooth transition like you are saying there were hiccups, obviously pre-GST and Resinova. But now the transition has smoothly happened in GST?

**Hiranand Savlani:**

Yes-yes, now everybody has got it registered, so now we do not see any problem, some are left out, so they have completed by July end, so they maybe placing the orders from August onward, I think most of the people have covered under GST and we have decided not to supply anyone who does not have GST number and even dealer and distributor communities also having fear that if they will go to the unorganized player, whether they will be able to get the credit in time or not, that fear is already there in the market. So they also want to stick to the organized player because there they know that there is a guarantee that they will be depositing the tax in time and they will be uploading their returns in time so that they can get the credit. Unorganized players there is no assurance whether they will be paying the tax in time, they will be uploading the return in time. So because of that distributor themselves are talking that we do not want to go to the smaller brand.

**Atul Mehra:**

In the marketplace, overall construction activity is improving or because of GST it is still weak, any trends on that?

**Hiranand Savlani:**

Basically, even construction activity is also not picking up that fast. The reason is that in construction also they were facing the problem relating to RERA. So I think 31<sup>st</sup> July was the last date of registration of RERA. Now I think most of the organized developers have got it registered. They were also not happy to buy the product because they are also getting the credit on the inputs. So they were also postponing their purchase and wanted to take the advantage of the GST. So now I think RERA and all these things now through, people who wanted to register, they have got the registration and now they have also started buying back in the system, so slowly and gradually we have to see how the market is developing. But at the same

time, it is not a big win kind of I can say growth coming from the market, but yes, because of restocking, July was excellent, we have to see August and September how it is panning out.

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

**Maulik Patel:** Sandeep bhai, gross margin in Pipe business is expanded very-very high number; it is around 34% of gross margin in this particular quarter compared to around 27% last year. What could be the reason for such a margin expansion?

**Sandeep Engineer:** We have made the changes of going backwards in our manufacturing of our own CPVC line of products and obviously there are benefits coming out of it, one. Second, we have started importing now PVC also to the tune of 30-40% which has also given us substantial advantage in the first quarter. Mainly these two reasons have helped us which you can see which we are talking about or making the changes and going backwards to make our own product line. These are exactly the benefit which we have added to the expansion. But Hiranand bhai can also add more on this.

**Hiranand Savlani:** Maulik bhai, basically this is what exactly we were communicating in our earlier communication to all the investors that with this backward integration we are expecting to improve our gross margin as well as the EBITDA margin. This quarter unfortunately EBITDA has not improved in percentage terms, mainly because of the branding in the sales promotion related activity and because of the lower base also. Historically, if you see the first quarter is contributing around 18% of the full year revenue. On a smaller quarter, if the expenditure is high, then in percentage terms, it looks very-very high. So because of that EBITDA has not improved, but from gross margin you can forecast for the coming quarter and I am sure it is going to ultimately convert into the EBITDA improvement also.

**Maulik Patel:** Are you maintaining that range of 15% of EBITDA margin in a Pipe business the guidance we earlier gave?

**Hiranand Savlani:** Yes-yes, we have constantly communicated all the investors that we will be maintaining 14-15% kind of EBITDA margin, that is the broader range we have given to the investors. But yes if the market support, we can improve that also.

**Maulik Patel:** If you see the PVC was Rs.77 in the beginning of the quarter and it corrected to close to around Rs.71 at the end of the quarter, we never have any kind of inventory loss because of the fast correction in the PVC prices?

**Hiranand Savlani:** I told that this quarter is very-very light for us because first quarter is contributing hardly 18% of the revenue and secondly what Sandeep bhai has said that we have a lot of inventory in the pipeline which was imported. So because of that, that effect has not come into the quarterly number. But yes, the people who are a PVC player who are selling majority of the PVC has got affected, because in case of Astral, now 55% of the revenue is coming from the CPVC, 45% is

coming from the PVC side, so it is not affecting much and that too a very-very light quarter, so it has not practically speaking affected us, on the contrary now PVC trend is on the upward journey, internationally already the PVC price has increased substantially and in the coming months also we are expecting that the PVC price will go up, on the contrary that will be a good advantage to us in the coming quarter.

**Maulik Patel:** What benefit we get in terms of import on the PVC directly compared to our earlier approach of buying from the Reliance? One I think you said earlier that we get higher credit days.

**Hiranand Savlani:** Yes, one is the higher credit days and we can say we are lucky that in the cycle when we started importing the PVC, the currency has remained stable or maybe a little bit on appreciation direction. So that has also helped us. So it is very difficult to define in terms of percentage that how much benefit compared to Reliance because on a quarterly basis very difficult to define the number, but on a yearly basis we will work out and we will say how much saving will be there, but I am sure it will be a sizeable saving to us.

**Moderator:** Thank you. The next question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

**Saumil Mehta:** Two questions from my side; one is in terms of the gross margin improvement, obviously is also on the back of raw material integration what we have. On a steady quarter, where do we expect gross margin for a full year basis from 34, what is the kind of improvement we can look forward in FY'18, FY'19?

**Hiranand Savlani:** I think on a one quarterly basis, we should not consider that as a base, but yes, on a full year basis, you can expect somewhere around 32-34%.

**Saumil Mehta:** My second question is in the Adhesives business, while I understand the price gap between us and some of the other market players is to the range of 30-35%, but Pidilite on the conference call seem to be a bit aggressive on pricing and chase volume. How does it affect us in terms of a pricing strategy and some of the trade margins which we give imminent, your thoughts on the same?

**Hiranand Savlani:** I do not think Pidilite become aggressive is going to affect Astral because first of all we are not directly in a competition with the Pidilite. Our major revenue is coming from the segment which is other than Pidilite. Now, in the new product basket which we are entering now in a big way, there may be a competition with Pidilite also, I cannot rule out that probability also. But I do not think for a company like Pidilite where they are working on such a scale they will be interested to fight with a company like Astral which is having very-very low base. So we have to see how they are working out. Today the gap is so wide. Even if they drop a couple of percentage price or maybe 4-5% price, then also I do not think we will be affected anyway.

**Saumil Mehta:** Any change in revenue guidance on a consol basis for FY'18-19?

**Hiranand Savlani:** There is no change.

- Moderator:** Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** My question is given the new capacity which will be commissioned, can we expect next year to be a very strong growth of say 25%-30% and after this expansion, say by FY'18 end, what would be the plant wise capacity if you could share?
- Hiranand Savlani:** Right now, we are spending sizeable money into the CAPEX cycle, but that does not mean that we are going to put up all the machine at one-go, we will be completing the building at one-go, and then as and when the demand will come, we are going to add the machines. Suppose if these two plants, we are targeting to 35,000-40,000 MT of capacity, that will come on the day one, it will come in the phased manner, yes, but building we cannot do in a phased manner, so building we are completing in one-go, but the machine installation will take place as and when the demand scenario will improve.
- Sandeep Engineer:** Yes, we will be focusing on addition of distribution channel as and when required to increase the amount of demand and sale, and with the GST coming in, all the builders have to charge GST 12% on their products whatever they sell apartment, shop whatever. So they would also prefer to buy from good suppliers. So we also see a very good positive growth on the project side and the dealer network side. We have a lot of pockets where we would work to increase our sales reach. I see that with the addition of capacity, we are targeting good growth and continued growth in double-digit numbers.
- Hiranand Savlani:** So we are mentally prepared, indirectly I can say that even if the growth comes 25%, we are ready with that also, and we cannot say that it will come next year 25% kind of growth, but we are getting positive vibration of GST. So if the unorganized to organized play work in a big way next year, then we may get that kind of growth, then we should not miss the opportunity, so we are keeping ourselves ready for that and we will see how the growth is panning out, based on that we will take our decision.
- Anshuman Atri:** Second question is regarding the spends. The advertisement for the full year, will it be flat and what kind of further say branding can we see for the Resinova segment and margin expansion, we have done very stellar progress on margins for Resinova, but definitely, the management would be expecting to move it further nearer to the Pidilite level?
- Hiranand Savlani:** No, no, we have categorically communicated to all these Analysts Community and the investors community that this year we are not expecting any improvement into the margin in Resinova, because last year margin was excellent and this year if we can maintain, we are happy with that. So we should not expect too much of growth into the margin side. Pipe also, we are more focused on the volume growth rather than the margin side. Pipe also, we are constantly telling that 14, 15 is the ideal percentage of EBITDA, but if the circumstances will be there and we will be able to get some advantage of the market and the growth, we can improve into that side also. But Resinova, last year was 16% kind of EBITDA margin which was one of the best margins I can say. So you should not expect too much growth onto that level. Of course, this

quarter was low but we are confident that in the coming quarter margin expansion will be there compared to the Q1. So overall, full year basis, we are not expecting more than 16%.

**Moderator:** Thank you. We take the next question from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.

**Akshit Gandhi:** If I look at the standalone realization per Kg it is roughly around Rs.153/Kg, whereas last full year it was around Rs.164/Kg and with PVC prices stabilizing and everything, is it fair to say that this year whatever will be our volume growth, our value growth will be 6-7?

**Hiranand Savlani:** No, it is not like that. Subsequent to come out from our earlier arrangement with Lubrizol, we drop our price substantially in the second half. First half, you are right, that scenario will be there because the CPVC price was dropped by 12-15%, and we went into the backward integration. So because of that that base effect is playing in the first half. From October onwards, that base effect will go away. So then the volume and the value growth will remain same. Now, if the CPVC price starts growing, then there will be a positive side also, that the volume growth will be lesser and the value growth will be high in the second half. So we have to see how the CPVC price is panning out in the second half. First half, yes, volume growth will be more, value growth will be low, but second half, it will be equal or value growth may be more.

**Akshit Gandhi:** Also, second thing if I remember the March numbers, we have seen an expansion in the receivable days. So has that normalized because the sales have been lower this quarter, what will be the receivable says as on June 30<sup>th</sup> if you can share please?

**Hiranand Savlani:** No, March also we have not extended the receivable day. We have very categorically written in our presentation, if you can see the presentation which is lying on BSE, NSE website as well as in company's website, if you can download the receivable page, we have put a clear note that the receivable has gone up because of demonetization, the March month sale was very high, so March month, we did more than Rs.300 crores sale in the alone single month of March. You are calculating the number of days based on the full year sales. So you are making it average of full year. But if you pick up the March sale, you will find that there is no expansion into the receivable days. It was a one month outstanding only and that is what going on today also I can say.

**Akshit Gandhi:** So we can assume that as on June now, the debtor days optically now would be lower?

**Hiranand Savlani:** This is normally moving between 30 to 40 days, this is the cycle, not more than that.

**Akshit Gandhi:** If I look at your interest cost, we have some fluctuation in FOREX. If you could just help me understand what is that?

**Hiranand Savlani:** FOREX is basically in our loan side, some loan is in the foreign currency denomination, in the same time, we are buying into the foreign currency, the raw material, and there we have a line which is we are showing as acceptance in our current liability, that is if the dollar denominated.

So now if the currency will appreciate, then there will be a positive effect into that, and last year also, you can say there was a sizeable positive effect into the currency side. This year also currency is either more or less I can say stable. Recently in the month of July it is appreciated a little bit more, but otherwise, first quarter was more or less stable currency. So, because of that you will see there will be a positive effect. Last year the first quarter was not as stable as current. So because of that unevenness is there but now I think more or less currency is trying to be stabilized between somewhere around 63-65, so now you can see there will be few loss into the currency side, which was there in the previous two years. I can say '15-16 and '14-15. That two year we lost heavily into the currency side, but now, last year was very comfortable, and this year also first four months is very-very good going, there is no effect of the currency.

**Akshit Gandhi**

This FOREX risk, how do we manage it -- do we keep it open, do we hedge it?

**Hiranand Savlani:**

Normally, the company has a policy that we keep all the time near-term hedge. So we always keep ourselves hedging up to 60 to 90 days payments. But we cannot hedge the full because we do not know the trend of currency, we are not that expert into the currency side. So we always try to balance out. So that even the worst situation arise, we should not be affected heavily, at the same time good situation arise, we will not be heavily benefitted also. So we will always try to balance out in between and that is the reason we always cover ourselves between 60 to 90-days.

**Moderator:**

Thank you. We take the next question from the line of Ritesh Shah from Investec Capital Services. Please go ahead.

**Ritesh Shah:**

Sir, is it possible for you to quantify the one-off? You indicated that there was a pass-through related to CST quantum. Is it something that you can quantify please so we can understand what were the normalized margins would be for standalone and the consol level?

**Hiranand Savlani:**

Ritesh, to be very honest, we are working on a very-very tight schedule and we all seniors are leaving today for Europe. So it will be very difficult to quantify because just now we have completed the board meeting and also I have to sit with my team. Maybe once I come back, we can share that number to the analyst community.

**Ritesh Shah:**

Sir, secondly, on the cost-saving measures, we had plans for Hosur compounding facility. So what are the timelines over there, what is the capacity and what sort of cost savings can we expect over here?

**Sandeep Engineer:**

We have started the compounding at Hosur and now Hosur makes CPVC compounds on its own and PVC compounds, but CPVC compounding facility which we talked about in the last con-call has just started two weeks back. So you will see the benefit out of it in this quarter, but we are sure that it will give us substantial benefit, two ways -- One, we get over resin at the Chennai port. That will also help us in saving on the freights; and Secondly, the freight from Ahmedabad to Hosur also, it is saving for us with the compounding facility coming up at Hosur

plant will help us. But it has just started a week to ten days back, so you will see the benefits in coming quarters.

**Hiranand Savlani:** So the full benefit you will get it in the Q3 because right now, we might be sitting on some of the ready compounding raw material with us and at the same time finished goods inventory also. So the actual benefit will be translated in Q3.

**Sandeep Engineer:** But all plants would be self-sufficient and they will be doing their own compounding at the site, even the plant which is coming up in North, from day one, we will do its own compounding at the location, we will not be transferring compounds from one plant to the other.

**Ritesh Shah:** Sandeep bhai, how much is the compound capacity over here just to understand how much the cost saving benefit can be?

**Hiranand Savlani:** Compounding capacity over there is 15,000 MT, which is very much what is our requirement.

**Sandeep Engineer:** We have to put a minimum compounding capacity because we cannot have smaller compounding equipments anymore. It is a substantial capacity as we feel it, it is always advantageous to us.

**Ritesh Shah:** Sandeep bhai, secondly, you indicated about power cost savings. Possible to quantify to what level this would help us?

**Sandeep Engineer:** Give us one or two more quarters as the 66 KVA substations have just started, we can now trade in power, we will save on that and 33 kVA substation have just started at Hosur and everything has just started, some a week ago, some a month ago. Plant at Dholka is going to start in a week or ten days. I think again you have to give us one more two quarters to exactly quantify.

**Hiranand Savlani:** I think we have not gone today on the exchange. Dholka even if there is 11 kVA, we are buying the power from the exchange already, but there we are not getting too much of benefit, but 66 kVA there will be a sizeable benefit. So very difficult to quantify the amount, but net-net I can say if we go everything through, we can save at least Rs.5 crores to Rs.7 crores additional.

**Ritesh Shah:** Sandeep bhai, any color on the new product launches, what the reception from the market has been for Fire Pro, Sprinklers, Silencio you exports and any new Adhesive launches that you would like to highlight?

**Sandeep Engineer:** Fire Pro, we are getting good orders, we have ISI approval, our file in UL is moving fast, and we should get the UL approval within this fiscal, but most of the projects in India are using product feature ISI approval, so we have ISI approval and we are getting projects on that. UL today whatever they use for fire in the metal, none of the products are UL approved. So there is a myth that you need UL approval and it is a must. It is good to have UL approval, it gives more creditability to your product just like we have NSF approved for plumbing, and UPC 1

approved for plumbing, but we will get the UL approval also shortly. We are doing some good projects, but still repeatedly, I will tell you the hindrance of fire growth is BIS. Still BIS has not cleared the product to be used in fire hazards, it is only classified for light hazard, and we must get it to through the medium hazard to broaden the usage of the product. We are continuously trying to work on it and we do not know when it will be through. Again repeatedly, I tell it should be done shortly within this fiscal. If that happen, the other market will open up. But with the light hazard, there are limitations of its usage, but still we are getting good orders. We are doing good with all the other brand, Silencio, we are getting good orders, good breakthroughs, product is growing, we are now highly focusing on Silencio, we have also started and launched the underground drainage channels from a very good company in Europe, that also will be doing good for us. Our Clamps & Hangers have started moving because now people want product with GST benefits which was not there a few months ago before GST was there, so that is doing good, and a few more new products we are working. We cannot let you know at present because we are in the initial stage of working on those product lines, but we hope to bring few new products in this fiscal or coming fiscal. All products are doing good. In the Adhesives side, we have products, we are bringing new products which we have a gap in the construction segment especially the Waterproofing and we are focusing to strengthen the product line which we have. Lot of work is going on both the sides and showing good positive results.

**Moderator:** Thank you. We take the next question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

**Basudeb Banerjee:** A couple of questions; one, just to understand from the gross margin perspective, was there any specific improvement in mix this quarter, it being a linear quarter, and the better margin mix improved significantly or you are confident that this 33%-34% gross margin is sustainable down the line?

**Hiranand Savlani:** I think we have already clarified in earlier question that one quarter cannot be considered as a base, but yes on a full year basis, we will be somewhere around 32%-34% kind of level.

**Basudeb Banerjee:** Second thing, sir, as you said in the initial comments that you are still confident of 16%-18 volume growth for the full year. So that implies close to 20% volume growth in rest of the year to do around 16% volume growth. So just one question regarding that that Q4 last year volume of around 29,000 MT. Definitely, it was led on the post-demonetization period high revenue, and as you said that March month demand was quite on the higher side. So, will it be possible to grow on that base again in this Q4 nor on adjusted basis the growth requirement will be as high as 30-odd percentage?

**Hiranand Savlani:** No, if you see from the initial our guidance, we have always said that we will be growing any number between 15%-20% in volume terms, and we are today also stick to our guidance and we are confident that there should not be any problem unless something abnormal happen in the country, that is a different thing, we are getting a positive vibe from the July onwards, because July itself we have grown 19%. So we do not see that any problem will be there, but

end of the day we are in a business ups and down is a part and parcel of the cycle in the growth journey, so maybe 1% here and there can happen, we cannot rule out that probability, but as of today the situation on the ground what we are seeing, we do not see any problem growing any number between 15%-20% in volume terms.

**Basudeb Banerjee:** What is the latest full year consol CAPEX outlook?

**Hiranand Savlani:** We have already communicated, that also we are stick to that again we will be spending close to Rs.200 crores of CAPEX in the next two years FY'18 and FY'19. So we have to see how the growth is panning out, how much machines that we have to put in this year or next year, based on that, the number will be changing but we are targeting to put Rs.160 crores kind of things in Astral and Rs.30 crores to Rs.40 crores in all our group company.

**Moderator:** Thank you. We take the next question from the like of Kamlesh Kotak from Asian Market Securities. Please go ahead.

**Kamlesh Kotak:** Sir, just wanted to understand how much has been the growth between agri, non-agri, is there any material differences between the two sides going and how you see panning out of the coming quarters if you can just highlight that, any indication in terms of the growth projection?

**Hiranand Savlani:** The indication I can say is that, yes, the PVC market was slow particularly in the agri side and we being a lower base, so it will not be a sizeable effect on us, but plumbing and all, we are okay, we do not see any much problem into that segment.

**Kamlesh Kotak:** How much is the capacity you are planning for the Rajasthan plant?

**Hiranand Savlani:** Initially, it will be between around 20,000-25,000 MT, then we will add to maybe higher level once we will see the performance of that plant.

**Kamlesh Kotak:** At Hosur also, it would be similar sir?

**Hiranand Savlani:** Hosur initially will be around 14,000-15,000 MT this year and then we will see how the things are happening and then we can look into the additional thing.

**Kamlesh Kotak:** How is the ramp up at the Ahmedabad plant for Adhesives – has it started to normalize?

**Hiranand Savlani:** Yes, yes, Ahmedabad plant is fully ready for the Adhesives side.

**Sandeep Engineer:** Even the R&D building will be ready next month and we will be starting our R&D activities, all the R&D activities will be done in Ahmedabad.

**Kamlesh Kotak:** At peak capacity, what could be the revenue we can generate from that plant?

**Sandeep Engineer:** Adhesives India operation can generate around Rs.600 crores kind of revenue, three plants put together; two in Kanpur, one in Ahmedabad, and if we do a little bit more automization, then it

can go even higher than Rs.600 crores also so that we have to work out... still, we have not worked out on that direction, but if we can spend few crore rupees on automization, then we can generate more revenue from the same plant. So we are working on that that if we can do some automization in both the plants in Kanpur, then the same plant can generate higher revenue for us.

**Sandeep Engineer:** The bottleneck is packaging, not the production.

**Kamlesh Kotak:** Sir, about the launch of new products you mentioned of the US and UK subsidiary into India and the US business itself ramping up out, how that is picking up.

**Sandeep Engineer:** It is picking up in US and the completion of the improvement in the machinery and addition of capacity in US would be over in the month of August. We feel by October or November, we would be able to make a soft launch of the US product and then once it is done I think we can slowly ramp up the capacities in America and sell the products in Indian market, and at the same time, we are bringing a few products from UK which will be marketed in Indian market and vice versa we are working on a few products which Resinova makes, we want to sell in bulk to UK plant and we will be repacking there, and selling it in the UK and the export market shortly within next 6-8 months these projects would be active all and will be finished also.

**Hiranand Savlani:** So Kamlesh bhai, basically in number side if you see then you will see that Q4 onwards, you will be seeing in the actual number. Till that time, all these backward things are happening at all the plant level, R&D level and all. But number conversion will start from Q4 if everything goes in a schedule plan. If there is a change into schedule plan, then there will be a little more delay also. But right now, what we are seeing that from the Q4 onward, the things will change into the number side.

**Moderator:** Thank you. We take the next question from the line of Chirag Lodhia from Value Quest. Please go ahead.

**Chirag Lodhia:** I have only one question regarding excise duty. If I look at excise duty as a percentage of sales in this quarter is 7.3% versus 11%. So what is the reason for this sir?

**Hiranand Savlani:** Basically, at every quarter end we have to make the provision of excise duty in the closing stock. But now there is no excise duty in the country. Because of that, we have not done any provisioning on that side. So because of that the excise percentage has come down. If I do the provisioning of excise duty, then my RMC will further go down. I do not know whether you are a chartered accountant or not, but chartered accountant can understand the closing stock provisioning happen by debiting excise duty and crediting the closing stock. You pass the journal, debiting excise duty and crediting to the closing stock. So if you do that thing, then the excise duty amount will go up. So today it is 7% go up to the 10% based on the closing stock number and then it will reduce the RMC to that level further, because there is no excise duty going forward from July onwards, so that is not reflected in that. That is why, across the board in all the company's number, you will find that the excise duty element has come down.

- Chirag Lodhia:** In coming quarters, we may see this positive impact bit again reversing in next quarter with GST adjusting to the stock. Is it fair assumption?
- Hiranand Savlani:** No, there will be no effect in the coming quarter, there will be neutral, because now we have not loaded into the closing stock neither have we added to the excise duty provision
- Moderator:** We take the next question from the line of Ravi Mehta from E-Financial. Please go ahead.
- Ravi Mehta:** Just one question that when we shifted from Lubrizol to our own compounding since October since then the realizations on CPVC segment is intact or we have changed any realization over there?
- Hiranand Savlani:** Realization had dropped because we have reduced the price. We have passed on the benefit what we got it because of the backward integration. We have passed it into the market, at the same time...
- Ravi Mehta:** I am asking since October sir, after moving to the new way of working of our own compounding, so we have passed on the prices, so I am talking in Q4 what we have realized, we have realized the same in Q1 or is there any change?
- Hiranand Savlani:** More or less, it is same, there is no much change into the pricing of CPVC.
- Ravi Mehta:** Sequentially, there is not much change in CPVC. It must be only the PVC which it keeps fluctuating.
- Hiranand Savlani:** Absolutely, you are right.
- Ravi Mehta:** Why I am asking is that the realization per ton, when I just see quarter-on-quarter, there is a big dip. So that can be because of the ...?
- Hiranand Savlani:** Because of the mix.
- Ravi Mehta:** Mix is more or less intact meaning 55?
- Sandeep Engineer:** There are certain mixes we change within the product line also and with CPVC, PVC because sometimes the fitting, the valve, ratio also change in the pipe and sometimes the ratio within PVC and CPVC change, they keep differing a little bit from quarter-to-quarter.
- Ravi Mehta:** When we source CPVC resins now instead of compounds, so the price of CPVC resin is stable or it is also equally fluctuating like PVC resin?
- Hiranand Savlani:** Right now, it is stable because I think CPVC has come down to the bottom level. There is very limited hope of further reduction much into the CPVC side.
- Sandeep Engineer:** Mostly stable from last many months.

- Ravi Mehta:** Nothing like PVC kind of volatility.
- Hiranand Savlani:** No much volatility.
- Moderator:** Thank you. We take the next question from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Just one small clarification; on the excise duty point you mentioned, is there any impact of that on the gross margin for the quarter?
- Hiranand Savlani:** No, on the contrary if I do that effect, then the gross margin will further improve, because I told that entry will be like that, excise duty expense account is debited, closing stock is credited. If you reflect that into the account, then your GP will improve by further 3%, because right now it is 7%, normally, excise duty is around 10% was last quarter.
- Atul Mehra:** So adjusted basis, our gross margins are of not 500 basis points, but may be 800 basis points?
- Hiranand Savlani:** Yes, but that cannot be considered as a base, because we have to see post GST how the things are happening and how things are moving. So next quarter number will give the stable kind of GP, then that can be taken over for the coming quarters also.
- Atul Mehra:** Pricing has been stable, right, in terms of PVC and product?
- Hiranand Savlani:** PVC price has dropped substantially, product price more or less is stable.
- Moderator:** Thank you. We take the next question from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** Last time, you guided for **expected** capacity of 1,75,000 MT right?
- Hiranand Savlani:** 1,75,000 MT.
- Anubhav Sahu:** Sir, for the Hosur plant, you are seeing 15,000 MT as the initial capacity and for the Rajasthan 25,000 MT something around that?
- Hiranand Savlani:** Yes, 40 and 137 is already there.
- Anubhav Sahu:** So if I take that into account it is coming little around the same figure 1,75,000 MT, but sir today you also mentioned that there is a chance of an upward in both Hosur and Rajasthan plant?
- Hiranand Savlani:** Not now, that may be FY'20.
- Sandeep Engineer:** We build our construction buildings in such a way that when we need to add the capacities, we do not have to go to do the construction, we just have to add machines and both the plants are

getting constructed in such a way that we can at least do two to three phase of expansion in coming one, one and a half years depending on how we fill the capacity.

**Anubhav Sahu:** Wanted you to comment on the industry as well...has the similar kind of GST transition has been felt by other organized players, do you see any change in the market share within the organized players per se, any thoughts on that?

**Sandeep Engineer:** I feel that the market shift within the organized players will be on the positive side and a couple of organized players who are there will have a positive impact after the GST implementation.

**Hiranand Savlani:** But I think we are at an early stage, so give us some time to understand the market because we have just completed one month, so it is too early to say that we are going to gain to this extent, that extent, I think it will be too early, maybe, in the next con call we will be having more clarity.

**Sandeep Engineer:** At least for such changes, we have to give two to three quarters to get things stabilized and then the real picture emerges out of it. Let us not be counting on couple of quarters because it is a major change for a whole country and I think everyone agrees to it that will take a few months or a few quarters to settle down.

**Moderator:** Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Ritesh Shah from Investec Capital for closing comments.

**Ritesh Shah:** Sandeep bhai, any closing remarks from your side?

**Sandeep Engineer:** Thanks everyone for your continued support. As we have given our views on Q1, we have given our views on Q2, and we are working hard as always to see things keep moving. We assure everyone that we will keep pushing on growth and growth and growth. That is what our target is and we are going in a positive direction. So, thanks everyone for the great support you have always given as investors.

**Hiranand Savlani:** Thank you, Ritesh for your support also for conducting the call and giving us the opportunity to host the call.

**Sandeep Engineer:** Thanks everyone and thanks Ritesh. Again, sorry for giving you a very-very short time to have this concall, but we did not want to go a week away without answering your queries and questions and leaving any doubts behind. So that was why we wanted to come and face all the questions and answer all of them.

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

