



“Astral Poly Technik Limited Q1 FY 2017
Results Conference Call”
August 22, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Astral Poly Technik Q1 FY 2017 Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara of Axis Capital. Thank you and over to you Sir!

Kashyap Pujara: Good evening friends. Thank you so much for standing by. It is a great pleasure to have with us the management of Astral Poly Technik. From the management we are represented by Mr. Sandeep Engineer who is the Managing Director and Mr. Hiranand Savlani, the CFO. Without taking too much time, I now hand over the floor to Mr. Sandeep. Sandeep Bhai, over to you Sir!

Sandeep Engineer: We welcome you all on this concall and we would be going through the quarter results and the business scenario, the prospects and the growth. Talking on the piping business we have posted result, which is strong enough to give you growth on sales and tonnage growth as also happened. At the same time we have launched certain new products and made certain changes in our raw material and source of supply. So we will take you one by one.

One is just to brief you that we have done the ground breaking of the new upcoming facility near Jaipur, just a month ago. The contractors have been freeze and we will be starting the construction work within a month from now and we expect the plant up in running within a year from now. The products, which we are including in the first phase, are CPVC, PVC for plumbing, drainage SWR, and agri pipes. So the project will cover almost all the segments of pipe manufactured by us.

Second is south plant where we had certain constraints of power, have been resolved. We have got the connected load as needed, so we are going with expansion in the south plant and we will be adding capacity to make PVC pipes for clean water and also adding some capacity for CPVC for the south region in the next two to three months. We are also starting the construction of our warehouse at the plant, so we will be centralizing the warehousing facility of south at one location.

Briefing you on the Kenya operations where we have started our own fittings the Kenya operation is growing. It has lot of positive signals on growth. We expect it to grow much faster now as we have started our own fitting operation there.

Coming to now the main locations, Ahmedabad, we have started our own low-noise system and have launched the system just a few days back called Silencio. So now under the

German technology we will be making PP in mineral filled pipes and fittings for the Indian markets and the same will be marketed in India by us under our own brand and under our own production facility.

We have also done expansions at the Dholka plant to add capacities for the agriculture pipes fittings and also added machines to make our own feeling rings, means rubber rings with the special technology of Germany, so a lot of capacity addition is being done there. We are starting a new range of valves at Dholka plant, which would be mainly addressing the PVC valve market and it will be more economical product, better product and fast selling product and helping us to grow the PVC clean water market in India in a big way.

At Santej we have now started our own compounding facility of CPVC. That is one of the biggest steps and I think that would be one topic, which everyone would like to know and would like to discuss. We have gone with a backward integration looking to the market scenarios, big competition, looking to the growth prospects and looking to reshape our business of CPVC we have gone, backward integration, we have put our own compounding capacity, compounding plant. It is a new plant, and we have gone backward integration for the resin. We have tied up with Sekisui the resin comes from the Japan plant or the Thailand plant and Sekisui will be supplying us the base resin. They will be only supplying the base resin. We have done our own compounding. We have done our own plant and we have gone with the approval of NSF for our own compound. We will be the first company who has NSF approved compound extended to NSF approved finished product pipes in India.

We have heavily invested on quality assurance of this compound. We have invested in machines, we have invested in new laboratories, we have invested in human resources, who can run these machines, we have set up a high end QC lab to check the quality, consistency, of the compound, which we will be making work plant at Santej. To go with this we have further launched our own brand for hot and cold-water plumbing as CPVC Pro, which is NSF, approved finished product for pipe and fittings used for plumbing in hot and cold water application. Actually by doing this what is our goal was, one, to go for backward integration, two is to make a quality which is NSF approved which we are making. We have our own now quality product in NSF approval.

We have our own brand now, which we will be selling to the market and developing our own brand consistently and continuously and we are also derisking our business because going backward integration, creating our own brand, doing our own testing, creating our own approvals, we are not dependent on one source of supply. We can buy from Sekisui, we are even free to have resin from a better source if available in the future or other sources if available in the future or if needed Sekisui cannot fulfill the required capacity to any good source which is available in the future. So that is one of the biggest step which Astral has

taken in its journey of business of CPVC and as we answer our questions, I think we will be able to give you more clarity with a lot of people will have many questions on this.

PVC we have now also derisked ourselves. We have not derisked. Actually we have increased the source of buying because Reliance is unable to cope up with our needs so we have started importing PVC from various sources, which has also helped us to improve our margins in PVC business. We have started the chambers up till 1000 mm and now we are increasing the range to 1200 mm shortly to increase the market. We have also started few valves, which will be used for the applications for agriculture, which also will give us good growth in the agriculture business. We have also started pressure pipes needed for water distribution in PVC, which has also given us good business in the government sector. So overall the pipe business has been very positive with lot of hard work, we have increased the reach also. We are adding more dealer points. We are adding distribution points and we are continuously working on increasing our market share.

Coming to the adhesive business, in the adhesive business the Ahmedabad plant is almost ready. We have started many products in the Ahmedabad plant. In the next one or two months we will be having complete range of product which is made in Kanpur will be made in Ahmedabad. So there will be a substantial addition of capacity in adhesives, apart from that we have added certain new products also which are needed for the construction business especially the tile grouts, the tile adhesives, cementitious products all these products will be in the market in next couple of months.

Adhesive business has shown positive growth. It has been growing. It has increased. The reach the dealer network points have increased and we see a good growth and prospect and future in the adhesive business in the coming months.

We have also done expansion in the UK plant has mainly because the capacity addition was needed there. The market is good. Market is growing. The company has shown good growth so we face the issue on the currency side and the addition has been done in the UK plant has acquired the US business, which has added to the UK business. So we will be also discussing more on each businesses, the future the growth and the prospects.

As always we are committed to our core business of PVC, CPVC piping business, and are committed to grow the business to grow the margins to see that it has got a continuous growth has given the guidelines to the market of at least 20% plus tonnage growth of even 20% plus, there were lot of positive signals in the market the market is growing the market has good demand and I think we also expect our business to grow even better than that. The adhesive business is growing much faster than expected and we should continue the same growth the only issue there we face now is the addition of capacity if once the capacity is added in Ahmedabad we will see good growth in that segment also.

Before we answer the questions, I think let me hand over the call to Hiranand Bhai to take you through the financial and then we can open the floor for question-and-answers. Thank you everyone.

Hiranand Savlani:

Good afternoon everybody and welcome to the Astral call. We will start with the standalone number of the pipes and adhesive and then the console number. I think most of the numbers are with you so I am not spending much time on the number because our press release is already on the public domain but I am taking you the key numbers and then we will straightaway go to the question-and-answer session.

The piping business has grown from 273.4 Crores last year in the Q1 to 317.1 Crores so it is close to about 16% in value growth and in terms of tonnage if you see now onwards we will be sharing you every quarter the sales number so now we are not going to publish the production number. Earlier we were not having the facility of the sales numbers but now because of the SAP, we are able to give you the sales number, so now onward every quarter you will be getting the sales number. So sales in tonnage terms have grown from 15968 metric tonne to 19355 metric tonne so close to about 21.21% growth. EBITDA has grown from 39.4 Crores to 40.8 Crores. Here I want to highlight that it looks like it is almost maintained the EBITDA but if you see the quarter-on-quarter percentage term the Q3 we have the EBITDA of just 10% and then Q4 it has improved to 12.4% and then now it is close to about 12.9% so close to about 13% so quarter-on-quarter EBITDA is improving because of the polymer price drop which affected us heavily in last two three quarters but now we are coming out of that and we are going towards the improvement into the EBITDA on quarter-on-quarter basis.

Now coming to the adhesive side if you can see the sale it has grown from 61 Crores to 72.4 Crores so close to about 19% kind of growth Resinova and the Seal-It has grown from 33.6 Crores to 38.2 Crores on a consolidated basis if you see the adhesive business has grown up from 94 Crores to 110 Crores so it is close to about 17% value growth and in terms of EBITDA the Resinova EBITDA has gone up from 7.5 Crores to 10.3 Crores and Seal-IT and EBITDA has degrown from 4 Crores 3.4 Crores and overall if you see that the EBITDA has improved from 11.5 Crores to 13.7 Crores so overall it is we have improved the EBITDA from 12.16% to 12.39% so slightly improvement is there the loss of EBITDA would mainly into the UK operation because of this currency effects and other effects so there we have loss 300 bps EBITDA but if you see the India operation the India operation EBITDA has improved by close to about 2% but overall also there is a slight improvement into the EBITDA.

Now come to the consolidated number. The consolidated basis the sales has grown up from 360 Crores to 420 Crores so registered a growth of close to about 17% and EBITDA has improved from 50.3 Crores to 54.6. Here again, I again I want to emphasize that this is the

slowest quarter in terms of Astral's past history normally the first quarter contribute around 17% of the full year revenue so because of that you are seeing this kind of number but in the coming quarter consistently there will be a higher number because now the seasonal quarter will come and second half is always 60% and first half is always 40%, so we cannot compare with the full year number with the Q1 number. So on a quarter-on-quarter basis it is a 17% growth.

Secondly if Mr. Engineer has already said that because of this change of our moving from the FlowGuard brand to our own Astral CPVC Pro brand lot of questions are there in the mind of investors and analyst community that what will be the effect of that. I can give you some of the highlights of the financial side. I am sure you all will be interested into that. In terms of working capital absolutely no effect on that contrary it will be a positive effect to us because Lubrizol has reduced the working days from 120 days to 60 days once they started the plant in India. Now Sekisui we are enjoying the same 120 days credit so there will be no effect on the working capital side. Secondly, definitely we have moved to the backward integration so there will be a margin lucrative so EBITDA margin will improve how much it will improve. We are not in a position to share the number at this stage because we have not started selling the product. So once we will be start selling into the Q3 we will be guiding you how much EBITDA improvement will be there because of the new change.

Secondly there is no penalty clause in the agreement with the Lubrizol which is going to affect Astral either any loss or any liability will be falling on the Astral because of this change from Lubrizol to Sekisui so that is also another option. Secondly with this our own brand we are going to open up the opportunity for the export market which we were restricted because we were having the Lubrizol brand and Lubrizol licenses were there in the other part but now with our own thing we have that opportunity is going to improve so I think with this we want to open up the question-and-answer session and we will be happy to answer all the questions. Thank you very much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Mr. Saket Kapoor of Kapoor & Co. please go ahead.

Saket Kapoor:

Good evening Sir and thank you for giving me an opportunity. Sir firstly the point about Lubrizol. Sir we had a very long-term sustainable relationship with them and they being a company belonging to the Berkshire Hathaway, what actually happened other than this inventory part which is you said from 120 to 60 days which they have moved on what actually affected that we have to end the contract with them and all our brands are being owned by Lubrizol in both the segments so what is the royalty that we are now going to pay to them since we are not going to show it any resins or compound from them?

- Sandeep Engineer:** See basically there is nothing wrong which has not happened nor we have any bad relations. The business has become more competitive we need to be going backward because everyone is going backward everyone only source is resins and makes their own compound. This was only the backward integration and this is the backward integration which was needed for the growth which was needed for creating our own brand which was needed to aggress the competition and which was needed to aggress the market so there was nothing that we have strong relations we have happy relations we have no nothing wrong, so we have nothing against any brand, we have nothing against anything we have nothing wrong anyone has done, nothing wrong we have done, but there are certain things in business which were needed to be done and that it all may happened. We have not even had any issues with them and there is no liability, our CFO first told.
- Saket Kapoor:** On the royalty part on the brand sir we are using that all the brands have?
- Sandeep Engineer:** No, there were no royalties on any brand we have time and again told that it was there were no royalties on anyhow.
- Saket Kapoor:** Now going forward I am asking sir since all the brands are owned by Lubrizol only?
- Sandeep Engineer:** Yes, there is no issue. We have come up with plumbing brand. We have strong relation with them we will see in the future or whether they would be looking at a prospect to work on other brands also we have all everything open and everything wide open in some of the business.
- Saket Kapoor:** Sir I just wanted to understand after October onwards we will be using the earlier brands only or you are going to revamp across the spectrum...?
- Sandeep Engineer:** We will see our things unfold with them and then only we will take a decision as of now we have the plumbing brand, which is there on CPVC Pro and we are still interest with them we are talking to them and we will see in the future how things work out.
- Saket Kapoor:** Sir my next question is on the price trend for this CPVC resins and the compound part how has been the price trend over quarter or if you could give even yearly projections?
- Sandeep Engineer:** I cannot disclose anything as of now I need some time to come out with that.
- Saket Kapoor:** Sir I am asking for the price trends of the resins and the compound how are the prices being played?
- Hiranand Savlani:** See price trend of the CPVC was on the reduction trend. If you see the last year Lubrizol itself is reduced the price by 17% to increase the price also equally 30%, 30% so naturally

they have to reduce the price also so the price trend is negative so now we are of the view now more or less it is time to settle down so now onwards will not be a huge drop into the price, slightly drop may happen but it is not a substantial kind of drop in to the market so now we trying to settle now. PVC anyway it is settle down on the contrary PVC has started slightly improvements in the market, so now we are in a view that overall there is CPVC, PVC pipes from Q2 onwards will be more or less stable kind of jobs slightly CPVC may drop but otherwise there is no room much available in to that sight.

Saket Kapoor: Sir for the compound also we can narrate the same story 17% reduction and now an upward trajectory going forward?

Hiranand Savlani: It looks like that but I told you CPVC their maybe slightly drops could happen but PVC there is upward journey only.

Saket Kapoor: Sir on the CPVC resins part last part can you quantify in the dollar terms what is the current price that would iterate and the compound also.

Hiranand Savlani: We cannot discuss at this stage because we have signed certain confidential agreement so at this stage we cannot discuss all those things.

Saket Kapoor: For the last quarter also you cannot disclose that what was the price for resins and compound.

Hiranand Savlani: We cannot disclose that?

Saket Kapoor: My last question is on the new facility at Gilund, Rajasthan what is the total capacity installed capacity you have been listing.

Sandeep Engineer: Right now we are targeting initially to put 20000 metric tonne and later on we have the space available we have a lot of land available we have a 50000 square yard land with us so if required we will add that capacity but the first phase will be 20000 metric tonnes.

Saket Kapoor: That is of CPVC compound we would be sourcing the resins from CPVC?

Sandeep Engineer: No, it will be a pipe plant it will not be a compound plant, compound will be in Santej Ahmedabad plant.

Saket Kapoor: Then it will be only the pipe and the fittings that will happen there?

Sandeep Engineer: Yes, pipe and fitting that would happen at Rajasthan.

Saket Kapoor: Sir I will come in the queue for the remaining questions.

- Moderator:** Thank you. We have the next question from the line of Praveen Sahai of Edelweiss. Please go ahead.
- Praveen Sahai:** Can you give the current capacity of your compounding plant?
- Sandeep Engineer:** Current capacity is right now is 35000 metric tonnes.
- Praveen Sahai:** So that can be extended like going forward?
- Sandeep Engineer:** Yes, definitely we can expand the capacity.
- Praveen Sahai:** From October onwards-just want to clarify we are going to in house use entire compound?
- Sandeep Engineer:** Yes, from October onwards we will be using entirely our own compound?
- Praveen Sahai:** Secondly question on the Rajasthan plant this 20000 metric tonne of capacity is from when that will start?
- Sandeep Engineer:** It will be Q3 next year.
- Praveen Sahai:** That is entirely for I can understand as far as already said its of a CPVC and the PVC plumbing so can you give any breakup in these three?
- Sandeep Engineer:** Well it is a magically machines are fungible so we can increase the CPVC or we can decrease the CPVC.
- Praveen Sahai:** Lastly, on the warehousing as Sir as you mentioned going to may kind of one warehouse at the southern region and also the issue in the southern plant has resolved so can you give more color on how much of the capacity is in southern plant and what is the target for the southern area actually we are going to do?
- Sandeep Engineer:** Right now we have a capacity close to about 14000 metric tonnes, which we can take it to 21000 to 22000 metric tonne and right now almost plant is fully utilize on an average monthly we are producing 1100 to 1200 metric tonnes and that is 100% sold out so now with this new additional power availability we are going to increase the capacity and that will be close to about 21000 to 22000 metric tonne.
- Praveen Sahai:** So that 21000 to 22000 metric tonne by when any timeline Sir.
- Sandeep Engineer:** May be another four to five months the year end definitely it will be there.
- Praveen Sahai:** Thank you Sir. I will come in the queue for further questions.

- Moderator:** Thank you. Next question is from the line of Ritesh Shah of Investec Capital. Please go ahead.
- Ritesh Shah:** Sir my first question is how much is the capex we have incurred for the compounding plant?
- Sandeep Engineer:** Around the plant capex is around 30 to 40 Crores and the UC and R&D as we have spend around 6 to 7 Crores so all put together around 50 Crores we used for the compound.
- Ritesh Shah:** Most of it is already done right?
- Sandeep Engineer:** Everything is done.
- Ritesh Shah:** Sir in the prior question you said that the current capacity is 35000 tonnes is that correct?
- Sandeep Engineer:** Yes very much.
- Ritesh Shah:** Sir what percentage of our total requirement will this plant cater to?
- Sandeep Engineer:** At present almost 70.
- Ritesh Shah:** 70.
- Sandeep Engineer:** Yes.
- Ritesh Shah:** Sir would it imply that can we look at Astral as a potential compounder who will also sell compounds to external players after two years, three years given the return ratio profile our return profile on this business would be better than probably PVC business?
- Sandeep Engineer:** Actually we have no plans to do this because we would be more focusing on our end products, finished products rather than going into compound selling it all so we would not be going for any selling of the compounds.
- Ritesh Shah:** Sir when we say that we will only be procuring resin from outside so we have the technical know-how of the compounding be it FlowGuard or Corzan or BlazeMaster to name a few of the compounds that we procure from Lubrizol so we already have the technical know-how so there would not be any disruption in our existing product basket would that reading be correct?
- Sandeep Engineer:** We have at present only worked and develop the compound, needed for the plumbing FlowGuard means the CPVC Pro. As time comes and has meet be we will be working on the other needs in the future.

- Ritesh Shah:** Sir last question so how much of sales that we are clocking from Corzan and BlazeMaster right now?
- Sandeep Engineer:** BlazeMaster is hardly selling because still the approvals are not there in India and industrial also we do not have a huge market so we will have to rework on that and BlazeMaster still the standard work is growing on with BIS and there are lot of restrictions that needs and but seen the standard we feel it will take some time to clear then only the market will be there.
- Ritesh Shah:** Sir my last question how much is the total capacity that we should look at astral end FY2018 pipes and fittings capacities?
- Sandeep Engineer:** I think around 150000 metric tonnes.
- Ritesh Shah:** Thank you so much Sir.
- Moderator:** Thank you. Next question is from the line of Atul Mehra of Motilal Oswal Securities. Please go ahead.
- Atul Mehra:** Sir just one question in terms of the cost differential between the various process so while we were procuring readymade compound from Lubrizol earlier and now that we will be doing entire conversion ourselves so is there a substantial amount of cost differential to the two?
- Sandeep Engineer:** See cost differential is obviously going to come now in what quantum and all please give us at least one quarter and we will define it at the right time. Secondly when you go for something backward integration is obviously going to save you something somewhere so there will be cost differential. I do not deny that since the value and the amount wise is something, which we need, a quarter and we will define everything we will define value, the differential.
- Atul Mehra:** Second is in terms of working capital if you were to look at it now that you would have like more backward integrated model so you will be our inventory levels will go up I understand you would have more credit days but overall inventory cycle should go up as a whole right?
- Sandeep Engineer:** It will not go up much Atul. The reason is that from Thailand we are getting the delivery in one week's time so it is not far distant like US we were getting 45 delivery from Lubrizol so I do not think it is going to affect much. On the contrary we are getting 120 days credit here so it will be much better and secondly lot of compound materials raw materials will be available locally so there also we need not to carry too much of inventory.

- Atul Mehra:** Sir about forex in terms of because lot of I think even the PVC you spoke about we want to import going forward so if you want to hedge the forex or what we wanted to do?
- Sandeep Engineer:** That we are anyway doing right now because PVC import element is very, very negligible. It is not substantial element may be 10% or so 15% we are importing not a sizable quantity. Again CPVC also if you see now that we are importing the base raw material so anyway the price is substantially will be lower than the compound price, so to that extent the dollar liability or dollar exposure will reduce substantially. Secondly as a company we have sizably reduced our exposure to the forex side. So I do not think that is going to affect big way to the organization.
- Atul Mehra:** Sir one final question in terms of demand trend so in Q1 we have seen the first quarter where I think the demand looks up more like 20% kind of growth unlike last year we saw that very soft so are we seeing these trends continue and what is really driving this growth in your view of that, so other categories like tiles and all have been very subdued this quarter?
- Sandeep Engineer:** We will see the growth and we will see the continued growth. I do not see anything. One is driving is that we have been aggressive in our branding and the marketing. We have take a lot of branding initiatives, increasing distribution network, increasing reach so got us on the growth part and secondly the product line has increased which is also helping us because now the new granite system on the market so that is also under good demand I see that trends of growth will continue and it will improve also as time come.
- Atul Mehra:** Sir just one final clarification you spoke about in terms of the technology and etc., so I believe we have such a lot of innovative products so all of those products will continue on a going concern basis as it is apart from the industrial side of product that you are mentioning but a lot of products and tie-ups that we had originally what will happen to some of those?
- Sandeep Engineer:** There is one tie-up is there will continue. We will have tie-ups where we need this. We had a tie-up with Wavin but now we have put our own products. So we have tie-up that need to be and we will make our own product as required because we need to go on the make in India, otherwise always importing and selling is not going to give us growth and the future prospect of the any new product.
- Atul Mehra:** Great Sir. That is it from my end. Wish you all the best.
- Moderator:** Thank you. Next question is from the line of Alok Rawat of Karma Capital. Please go ahead.

- Alok Rawat:** Good evening Sir. Thank you for the opportunity. I had just one curiosity the slowdown in growth is it somehow related to the fact that because you are ending the agreement with Lubrizol you want to lower the inventory level of that kind of product or it is nothing to with termination of the inventory?
- Sandeep Engineer:** I can tell you it is nothing like that. Even if you see the Q4 number that was also a robust number. We deliver around 18% plus volume growth and this quarter also 21% kind of volume growth so there is nothing like because of Lubrizol we are getting so we are selling like that way. The overall growth is there in the system. No one can deny that thing and if you see in the industry per se we are always above industry you see the history of Astral of last ten years we are always delivering above the industry level. So Astral there are so many reasons we are in that it is not only the one particular region Astral is continuously introducing new products, so the moment new products start penetrating at pan India level the growth will continuously come from the new products also. Secondly Astral is doing so much of branding activity, which is giving an edge over other brands for the retail side so the replacement market is supporting Astral in a big way. Whatever the slowdown is there in the system that is on the project side so project side yes we agree with your view that there is a sizable slowdown and which we are also getting affected otherwise our number could have been much better than what we have delivered so I do not see that that particular reason is driving the growth for the company.
- Alok Rawat:** Let me rephrase by my question, so after the agreement with Lubrizol ends and till the time whatever you manufacture you can sell even in October or in that quarter?
- Sandeep Engineer:** Whatever the inventory we are having with us that will be anyway going to exhaust by September so we do not have an inventory with us because we have to plan our affair in such a way but we do not have additional inventory that will last for long because pipe we are already exhausted right now so August itself we will be through and fitting some fitting will be left out that will be over by September so it will not be having any inventory of Lubrizol.
- Alok Rawat:** Thank you very much for the clarification.
- Moderator:** Thank you. Next question is from the line of Ravi Mehta of Deep Financial. Please go ahead.
- Ravi Mehta:** Good evening. Thanks for the opportunity. Just one quick clarification on when I look at pipe segment volume growth and revenue growth mismatch so is it because of the CPVC price cut because PVC price are anyways are robust as you mentioned so if you can just clarify on that?

- Sandeep Engineer:** Yes, that you are rightly understood because the Lubrizol had dropped a 17% price in the second half of last year so that a dragged down into Q1 also that is why value growth is low but volume growth is more.
- Ravi Mehta:** So that is mainly because of CPVC price?
- Sandeep Engineer:** Yes, absolutely because of the CPVC.
- Ravi Mehta:** The mix of CPVC is similar?
- Sandeep Engineer:** I do not have handy number but I think it was 50 to 48 or something like that.
- Ravi Mehta:** I just wanted to understand whether there is a change in mix of the price?
- Sandeep Engineer:** No much mix but basically there is a value drop realization drop because of the drop in the CPVC price.
- Ravi Mehta:** So any kind of inventory hit actually that has come in these numbers despite a strong margin.
- Sandeep Engineer:** Indirectly you can say to some extent inventory hit has taken place because of the CPVC drop.
- Ravi Mehta:** If you can quantify?
- Sandeep Engineer:** It is very difficult to quantify but it will not be a sizable amount it may be a smaller amount may be couple of Crores or so.
- Ravi Mehta:** Another question was on with that tie-up with of Sekisui of Japan so if we have already put up lines of bendable I think we were the only company doing that.
- Sandeep Engineer:** Correct.
- Ravi Mehta:** So that about the investment that we had made and those lines will that continue or even that will stop.
- Sandeep Engineer:** No we will be still working with Lubrizol and we will see what comes up from it presently we cannot answer this question because we are still in close contact with Lubrizol on basis of all these points.
- Ravi Mehta:** I also heard in the opening remarks about the pressure pipe business on the government side if you can just clarify what are these pressure pipes?

- Sandeep Engineer:** The pipes make for water distribution and used heavily by Narmada project and even the government of Gujarat project and now we also got a pool in the Rajasthan water distribution. So we actually do not supply directly to any government institutes or bodies but we have been approved by the government so it comes in the tender and the contractors buy from us and that substantially is a growing business for the government we have made it one thing that cash and carry for all the contractors buy these pressure pipes from us but these are huge in dia and the value is substantially good and the volume metric usage of tonnage of PVC also is good in this pressure pipes.
- Ravi Mehta:** These are only PVC pipes right only PVC.
- Sandeep Engineer:** Yes these are PVC pipes.
- Ravi Mehta:** On the low noise front when you have started manufacturing in house so just wanted to understand that here you will be sourcing the compound from the technology partner or you will be making it or how is it?
- Sandeep Engineer:** We will be making our own compound we will be making our own, we will be only buying resin, we will be buying the mineral separately, making our own compound, processing it and making the products. The entire technology will be in-house.
- Ravi Mehta:** Sir you are starting straight away with resin instead of this I just not probably?
- Sandeep Engineer:** Yes exactly.
- Ravi Mehta:** Thank you that is it from my side, all the best.
- Moderator:** Thank you. Next question is from the line of Nehal Shah of ICICI Securities. Please go ahead.
- Nehal Shah:** Thanks for the opportunity. Sir can you give us the breakup of our revenues in projects versus retail?
- Sandeep Engineer:** See we basically directly sell to our distributors so very difficult to know exactly the revenue but more or less this retails will be close to about 50% and the 50% should be project.
- Nehal Shah:** No, basically where I am coming from is are we getting those incremental benefits from our aggressive brand building, which we have done over the last three-year or so?
- Sandeep Engineer:** Yes, that is why see earlier it was 30/70 now it has gone up to 50/50.

- Nehal Shah:** Sir as far as projects is concerned now we have a predominantly very, very strong with the consultants and does the projects as well. Now with CPVC Pro coming in versus the FlowGuard brand and our checks suggest that FlowGuard because of the name FlowGuard also we also had a very, very strong representation in projects. Do you think there will be an knee-jerk reaction as far as projects is concerned and then again we will have to rebuild our specifications and then get back aggressively with the projects segment.
- Sandeep Engineer:** Basically we do not see any issues because there may the good product one we know that we need to do good products. We have good contacts with all the builders' consultants and we do not say that we were not selling good product. We do not say that we were not selling good product, we are selling a good product and we will continue to sell a good product, which has all the required approvals of NSF, UPC-1, NISI, so we have not gone a notch below the thing, which we are giving, we will continue to give the equal product or even work on better products and we will try to see that the customer is always delighted. I do not see any issues on that part.
- Nehal Shah:** Sir, will we have to get our product respecified with CPVC Pro versus the earlier product?
- Sandeep Engineer:** Actually, I do not see that it is a respecification need be. We will see that it gets specified.
- Hiranand Savlani:** Basically Nehal Bhai in the project if you see they specify the CPVC, not anything else. We have already started working on it and I do not see any issues on this front.
- Nehal Shah:** Sir, do you see the price correction in CPVC has already over or can there be still a 15% to 20% correction because of whatever steps you have taken actually that has obviously shaken the entire industry with you making such a product?
- Sandeep Engineer:** We do not know why the industry shakes. We have not shaken at all anyone.
- Nehal Shah:** No, you have definitely shaken everyone because whatever interactions we have had with the other players obviously everyone is thinking of what to take the next step going forward. So I was just thinking whether we are in a scenario where CPVC prices can fall by 15% to 20% in say next six to eight months. I am just throwing it around.
- Sandeep Engineer:** I do not see there will be substantial corrections and substantial corrections are needed for brand Astral. We will do the needed correction, but at present we have not corrected anything in our price, but the market is correcting themselves, I do not know why, but we will not be reacting at all on any front. We will be seeing the market yet and we take our decisions as need be because we know we want to give the best product, we have all the approvals in place, we are buying the best of the resins, we have not gone for the cheaper resins, we have got the best resins and we do not want to just dilute the brand or dilute the

pricing or going to any price war or get into aggression mode, we will do as need be. That is what we have been doing.

Nehal Shah: Thank you.

Moderator: Thank you. We have the next question from the line of Kamlesh Kotak of Asian Markets. Please go ahead.

Kamlesh Kotak: Sir just wanted to understand you said 50 to 40 it is the ratio between CPVC and PVC?

Sandeep Engineer: 50 to 48.

Kamlesh Kotak: Is CPVC, PVC right?

Sandeep Engineer: Yes.

Kamlesh Kotak: The growth has been almost equal for this quarter or what segment has outgrown and the segment, which has been strong in growth between the two?

Sandeep Engineer: PVC will be little more. CPVC will be little less but not much variation.

Kamlesh Kotak: Is it because of the fact that we have got into agri pipes and that is where the incremental growth is coming?

Sandeep Engineer: Yes you are right, because of that also PVC ratio slightly have to improve.

Kamlesh Kotak: How you see that demand shaping up now, now because we hear the government also is putting lots of way behind the scheme to implement the irrigation and other particular business reforms so how you see that business panning out?

Sandeep Engineer: It is very good actually it is growing very fast.

Kamlesh Kotak: Is it pan India or specific states that has been seen this kind?

Sandeep Engineer: Almost pan India.

Kamlesh Kotak: Secondly Sir coming to the adhesive business how the things are moving in terms of the price we have been talking of price discounting, narrowing with the competition and getting more visible so I guess Resinova is doing well but if you can share some more thoughts on the rebranding and initiatives about the pricing front and how what is that not working for sell it in particular entire segment.

- Sandeep Engineer:** We revised our prices from April and which were very well accepted in the market and stepwise we will be narrowing the gap and the price. It will take us a few years. I cannot say few months because we will be at the same time want to increase the market want growth want to see more products sell in the market so I think the price increase has given us the good margin. It has improved our margin. Secondly if the branding activity, which we said, we have branded all the products of Resinova as now we have two segments, which we call, is Astral Pipes one segment, which we use as a brand for Astral Pipes, and all the products of Resinova we buy Astral adhesives. We have created a brand image of Astral which goes with pipe and Astral adhesives and which has given us a good reach, good growth. Salman represents entire brand all the brands of Resinova as well as Astral means the pipes and the adhesives so that also is giving us a good image and reach in the market and I think the activities put together of branding, price correction increasing the product range with the capacity in Ahmedabad which will be up and running full-fledge in next one month. We are poised for a substantial growth in the adhesive business in coming six months and then the next year.
- Kamlesh Kotak:** Sir the entire growth has been volume led growth or there was some price impact also and this is 17% growth as we see?
- Sandeep Engineer:** Both volume and price.
- Kamlesh Kotak:** So volume growth could be in what range Sir?
- Sandeep Engineer:** Volume was not so much because the capacity, which you see, is highly utilized for the fast moving products. For the products, which we sell in abundance, we have reached a capacity utilization of 95%, 99%. With the new capacity I think we will be able to have both growth on volume and value but at present have got both volume and value both growth has come.
- Kamlesh Kotak:** How much capacity addition we have plan in Ahmedabad?
- Sandeep Engineer:** We are doubling the capacity.
- Kamlesh Kotak:** All products also would be launched from this plant as well?
- Sandeep Engineer:** Yes more or less all products will be launched and plus new products will also be there whatever the existing things are there plus lot of new products will be there.
- Kamlesh Kotak:** Sir what is the color on Seal-IT side, UK and if you can share?
- Sandeep Engineer:** Seal-IT in terms of volume and in terms of value they have grown 7%, 8% but because of this Brexit and all these events they have lost on the margin front that is why you see in the

first quarter they have lost margin from 11.9% to 8.9% so that was the setback from the Seal-IT but otherwise growth is still there and we are very positive about the growth so in this year we are also expecting close to about 10% kind of growth on a full year basis in the pound terms.

Kamlesh Kotak: Any update on the US acquisition how that business we are planning?

Sandeep Engineer: US acquisition we have just completed so shortly we are going to relocate that plant and after that we will see there will be uptick into that because US product will come to India may be three months down the line and similarly that product will go to the UK also and plus we are going to expand the business into US but it will take another one quarter to relocate the plant and after that only you will see the number will start coming from that plant.

Kamlesh Kotak: Lastly Sir what would be the capex for this year besides the compounding, which we setup?

Sandeep Engineer: Even compounding also if you see another major capex were done last year so this year compounding side we have spend only 15, 20 Crores so major capex was done last year so this year full year basis we are targeting around 70 Crores impact of capex in by when around 20 to 25 Crores into the adhesive side.

Kamlesh Kotak: Great Sir. That is it. Thank you.

Moderator: Thank you. We have the next question from the line of Basudev Banerjee of Antique Financial. Please go ahead.

Basudev Banerjee: Couple of questions Sir. As you said from the sourcing front you will be shifting from direct compounding to import material and then convert to the compounds am I right?

Sandeep Engineer: Yes very much.

Basudev Banerjee: So similar to some of your other peers said like where they run the risk of commodity price relation between the end product and the import material so will it be then required to see this spread between the two stuff and price variation between the two products separately?

Sandeep Engineer: See that commodity price risk was always there in the compounding also. We cannot say that compounding there was no fluctuation. So that was already there earlier also and now also it will be there but the question is that that the compared to the earlier the risk element here will be low what we were having in the compound, because compound we have to import some major chunk. Here the lower portion will be imported then the some of the

compounding agent will be available locally so to that extent effect will be lower what we were having earlier.

Basudev Banerjee: Suppose if Rs.100 is the price of wind extruded product how much out of that will be the compound and how much will be the import material to the compound now?

Sandeep Engineer: We cannot share all these information because these all are the confidential data. We cannot share that how much will be the compounding cost, how much will be the raw material cost these all are the key where the success is there so that is where the art, so we cannot share all these information.

Basudev Banerjee: As you said that you are going big on a pan India basis in the agri pipe segment so just wanted to know what can be the potential logistics cost from Western India to Eastern India for transportation of the end extruded pipe or say where you do not have any local exposure facility?

Sandeep Engineer: See east I do not think we are going to sell much five into the east agri particularly because we also understand that its sending agri pipe from here to east will be too much of transportation cost so practically it is not going to be viable much.

Basudev Banerjee: So broadly targets markets will be nearer to your plants?

Sandeep Engineer: Right now our target market is south and west more and now Rajasthan plant is anyway is coming next year, so in the north and east part covering will be easy.

Basudev Banerjee: Ballpark if we target quantum in the agri pipe segment in terms of revenue in next two to three years time?

Sandeep Engineer: We have not ballpark any number in mine but we will see the market opportunity is very good because agri size is 8000 Crores market in India so we can capture a reasonably good share out of that because even after we capture 300 Crores it is very peanut share of that 8000 Crores so we have not kept any specific number in mind but market opportunity is good so definitely we can have a reasonably good number out of that.

Basudev Banerjee: Last question Sir if I see your stated other expense in your P&L is like lowest in the past four quarters absolute terms so it is like almost compared to average of 42 to 43 Crores it is 35 Crores this time any specific reason behind that?

Sandeep Engineer: See what happened in that this particularly branding side events happened on a different, different quarter basis it cannot be like Sultan hovers in July so our sizable chunk of the branding activity took place in the month of July so now you may see that in this quarter

you will see there are now all of certain other expenditure has gone up so it depends on the event base, in particular event is happening in a particular quarter then the other expenditure goes up and it is a particular any event is not there in a particular quarter then there will not be an expenditure, so this may get varied but on a yearly basis normally we are working around 11% kind of level we will be trying to maintain that level.

Basudev Banerjee: So broadly how much will be the annual branding expense, which is the part of the overall, other expense now is the target.

Sandeep Engineer: We normally try to keep branding cost in the range of 1.5%.

Basudev Banerjee: Broadly it is within that limit itself?

Sandeep Engineer: More or less we try to be within that limit only but in particular year any big event is coming and that time slightly the budget goes away then the balance that to the next year.

Basudev Banerjee: Thanks. That is all.

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

Kashyap Pujara: Sandeep Bhai, I have couple of questions. The first one was if I were to look at Astral over the last couple of years, lots of things has happened in the sense we have forayed into adhesives, we are taking adhesives from our regional business, which it was to a national business, we are increasing the brand spends overall to grow there, we have acquired a company in US and trying to synergies that from UK and exploring options into India and we are finally change the supplier source and getting more derisked in that sense. Now do you think that all these things which are happening and lot of capacity expansions across which are also happening, do you envisage any stretch in management bandwidth that you are seeing or you thing everything getting absorbed in a smooth way?

Sandeep Engineer: Actually the management bandwidth with which we especially the people who are with me from 14 or 15 years and even more and the new people who have joined I think all of them have taken all the challenges in the right spirit and everyone has given their best to make things happen and they are so committed and they have taken so much load from me, I think we will keep on continuing to grow to add new products, to add new locations and I think lot of positive things will keep happening in Astral in not only coming one or two years, but coming future also for many years. So they have strong feel I think they understand of the strength of the team is enormous and the work they have done and the amount of the load they have taken and the amount of the courage they have given to me to take vital decisions and they have stood by it is something great. Not only them I can say

my distribution network is so strong and they have also stood by me on all the decisions have taken, my dealer network is so strong, they have stood by me and I think I have great strength from all the segments, all the employees, all the business partners and we are poised to give great growth and great results in the coming term.

Hiranand Savlani:

Kashyap I can just add to what Mr. Engineer said that you see with every growth Astral is heading the management bandwidth. The first we did the addition by way of Kairav Engineer who joined the family business three years before then last year one year before Saumya Engineer has joined, so we added there also the management bandwidth. Then we added one operational head into the adhesive side, from a very senior position from Anil Limited, so third position prior year we introduced that SAP, so we introduce a very senior guy into our IT field also so there we have done the addition. Current year we have added very senior HR from the Torrent, so we are constantly increasing our management bandwidth it is not that only Sandeep Bhai is handling everything, but Sandeep Bhai has a very good team with him. Recently when in accountant finance also we have appointed one more senior guy from before. So we are constantly improving our management team. So I do not see the management bandwidth will be the challenge to Astral and if required we can add more people to our team. We are open for that also.

Kashyap Pujara:

That is a good explanation. Second would be about brand spends you know on one hand, we have launched our own brand, which is the step in the right direction, and do you have your adhesives capacity that is coming on stream in the next month. So would you envisage that your brand cost would go up, because on one side we will have to promote our own brand and we will have to continuously have a share of voice in the media on both these counts, so do you envisage that in the interim may be this year brand spend that you were to say 1.5% will go significantly or what is your thought there?

Sandeep Engineer:

It will be maintained. We will not go on any overspending in the brands. We have already doing good amount of work on this part and I think we will not the overspending anywhere in sometime extension and within the spending which we have with the growth which will be doing and the margins which will be improving I think we will be able to suffice the need to increase whatever the need for the branding activity. So I do not see any stress on any additional investment on the brand. This year our Salman spending has come down substantially, so we have additional need to be spent on the brands.

Kashyap Pujara:

Just one question since you did mention on margins and I thin lot of discussions have happened there, if I look at our per kg margins since Q1 last year that has gone down significantly on a per kg basis. Now obviously Hiranand Bhai did mention about Lubrizol finally coming out with the price correction in the later part of last year, which impacted realization and obviously the way it looks like is that is straight slow down to the EBITDA per kilo and going forward, the way signals that we are reading from the market is that

obviously the move that we have done has kind of made other participants nervous and Lubrizol also has lot of capacity year in the country which they come out with so would there be a price correction further that other players might end up doing and would that kind of be matched up by us. So how are your thoughts on there because it is very initial phase of this transition and obviously not just analyst, but even competitors on the CPVC also constructing responses there. So do you see that we are going to be in for price correction in CPVC led by Lubrizol or by other players, which kind of might impact our margins further?

Sandeep Engineer:

Kashyap Bhai, there would be reactions, there would be price corrections coming. We have not reacted anything. We have not changed our pricing. We have not changed our price list and I do not know, I am surprised that why there is so much panic going around, but let it be there. So as market reacts or as the price reacts, as things happen we will be doing right things at the right time as the need to be much at the same, I assure you that we will be looking two things very importance is the growth and improving the EBITDA. This should be our prime objective and give us a few quarters, we will work on it and we will try to prove that we will grow and will improve our margins. This is the primary objective for us. Going backwards we have also improved our margins in doing our production that also will help and as the corrections happen as we speak, those corrections or as the market correct or need be we will keep watch on it and do the right things at the right time if the need be.

Kashyap Pujara:

Sir finally just to close the margin subject which everyone has asked just to summarize it, a bit better, that whatever, there has been on impact so far from here on, the way at least I am reading it is that on one side we have backward integration benefit which rationally should come out. So that could be one of the margin drivers going forward for the company obviously quantification of the extent of improvement you might give a couple of quarters down the line as an when you get the results, but that is one direction in which would can go. The second is that till date since Astral was the brand, which at least the plumbers knew, but it was largely being co-branded like Astral FlowGuard or Astral Corzan, and Astral did all the brand related expenditure and to develop the brand, but the premium of the brand was being shared by Lubrizol as well. So going forward since Astral CPVC Pro will be the brand, and we do not have any supplier conditions, that we can actually go to any player to buy the resin, then would it imply that we will also be capturing some amount of premium which was being lost out to Lubrizol earlier so that would also be the second lever for margins. Is that a fair assessment?

Sandeep Engineer:

We will be 100% always working on capturing premium on our brand too in CPVC business to the right amount to the right level that will always be there. Secondly as you said that doing our own things will give us more leverage or mileage to be more cost effective, to use the best things available if need be on the resin part to use the best ultimate resins in the future also may be one year, two year if the supplies is not matched or if we need more or the growth is more so looking to the overall PUC yes Astral as a brand will

always fetch good premium and margin on its CPVC business in the future also and we should, we will not only improve our margin, but we will also improve our market share also that would be our target at level of course in the coming years.

Kashyap Pujara: Sir that is very encouraging and my last question would be about the pipe segment revenue growth since you know, how would guide going forward at least for this year and next in terms of pipe segment revenue growth or volume growth, whatever you feel fine?

Sandeep Engineer: Revenue will be always targeting any about 20, volume we will always be looking about 25. We will try to see that both match each other and our goal should be 25% both for revenue and the volume, but the challenges are there. The challenges are enormous and I think together with our team and distributor we will try to work hard to achieve this.

Kashyap Pujara: Hiren Bhai just a quick question on the adhesive side also what would be the guidance that you would give there especially since the plant is now coming on stream in terms our growth rate?

Hiranand Savlani: Which plant?

Kashyap Pujara: After the adhesive plant that has now come in, there is lot of headroom to grow there as well. So what is it that we are looking at?

Hiranand Savlani: See if you see the UK operation, UK we think it will be growing around 10%, we will not be growing more than that, but once the US operation starts supporting one quarter down the line. So, I am talking about three months from now not this quarter end. So, December quarter end from January onwards, US how it is supporting to Seal-IT based on that it can grow faster also and it can improve the margin also because US operation is going to give sizable EBITDA to the UK company because there the product margins are very, very high. Secondly these products are going to shortly start in the Indian market and the UK market by importing from the US. So, we are betting on that. So it is too early to comment on the operation because we are just reshuffling the things and relocating so we are not giving any guidance on that front. So, right you can presume that it will be growing 10%, but we are very, very optimistic that that segment if it starts performing then the margin profile will completely change, because there the margins are 40% to 45% EBITDA, but I do not want to misguide the investor at this stage, let the December come and everything relocation and everything will happen and after that how it is panning up, how India operation is supporting, how UK operation is supporting to the US based on that margin will be decided. Now coming to the India side, India side you see when we acquire Resinova our margin was 7% to 8%, 7.5% or so, we have given the guidance that every year we will be improving 1%, 1%, 1% margin, but we are moving faster than what we have guided but that does not mean that we consider that as a benchmark that this quarter we will deliver 14%

plus into the Resinova so coming quarter we will be delivering 15% or may be 16%. We are at the same time interested in the growth. Right now, the growth constraint is that we do not have capacity with us. So whatever we will do we only improve margin. We can do anything else because the volume is freeze. So now one this new capacity will be there then again we will be fact to the volume growth rather than on the margin growth. So we may compromise little bit margin here and there, but definitely it will be better than last year and we will try to improve more than 25% to 30% because otherwise we will not be justifying our adhesive business. So right now 20% growth is there, but our ambition is that we should grow 25% to 30% into the adhesive side, after coming of the new plant so you can consider that Q4 will be sizably better number because October, November and December every month we are getting new capacity and the new product range. So from January we will be stabilizing everything, so from January onward you will see that adhesive will start delivering a sizable number and there will be improvement into the margin. See margin will improve on many folds because one, one is that we are getting capacity into the Gujarat location and so far everything is centralized in Kanpur and bringing a product from Kanpur to Gujarat or may be Maharashtra or may be south, it is costing heavily into the logistics side. So once the Gujarat operation will start, we are going to save sizably into the adhesive side. So that is also going to improve our margin, but again I am coming back that margin is not that only sole criteria for Astral, growth, growth, growth is the first priority for us and we will be happy to grow the company at 25% to 30% rather than improving constantly the margin. So we have to balance both and we will see how the things are panning out, but we are overall, we are very bullish about that.

Kashyap Pujara: Thank you so much. I think that was all from my side and can you check if there are any further questions?

Moderator: There are no further questions. As there are no further questions, I would like to hand over to you for any closing comments?

Kashyap Pujara: Thank you so much to the participants to hear the call and thank you Sandeep Bhai and Hiranand Bhai for participating on the earnings call.

Sandeep Engineer: Thank you Kashyap Bhai and thanks to all. Thank you.

Moderator: Thank you very much. On behalf of Axis Capital that concludes the conference call. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.