



“Astral Poly Technik Limited  
Q3 FY2019 Results & Business Outlook  
Conference Call”

February 12, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the Astral Poly Technik Limited Q3 FY2019 Results & Business Outlook Conference Call, hosted by Dolat Capital. 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 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. Priyank Chandra - Dolat Capital. Thank you and over to you Mr. Chandra!

**Priyank Chandra:** Thank you Bharat. Good evening ladies and gentlemen. We welcome you all on behalf of Dolat Capital to discuss the financial performance of Q3 of FY2019 and future business outlook of Astral Poly Technik. Representing the management, we have Mr. Sandeep Engineer – Managing Director and Mr. Hiranand Savlani, Chief Financial Officer. There would be an opportunity after the initial remark for the questions and I would like to hand over the call to Mr. Sandeep Engineer for his initial remarks. Over to you Sir! Thank you.

**Sandeep Engineer:** Thank you Priyank and welcome all of you to this conference call of Q3 results for Astral, Resinova and the other subsidiaries abroad. To take you through pipe business, the numbers are in front of you. In pipe business, we have a value growth gross of 15% plus, volume growth of 7%-8%. As we had told in our last con call results that we have been working from last two quarters on a lot of systemic corrections in the piping business in the systems especially credit systems, billing systems. Collection has been much, much controlled and regularized. The challenges in the market today are more on the liquidity front. And with this systemic correction, Astral is very secure, safe and still growing and focusing on its margins and also focusing on new products and value-added products and also focusing on markets which is giving its growth and which is giving good returns to Astral in terms of the value.

The Jaipur plant capacity utilization has started. We have started dispatching the CPVC, PVC, all the products of PVC pipes and CPVC from Jaipur to the north market and slowly the plant utilization is growing month on month. Similarly the plant at Hosur, we have completed the construction work of expansion. The depot work has been completed. The Hosur depot is now completely operational. We have shutdown all these depots of south in Coimbatore, Bangalore and in other regions and Hosur plant is now not only servicing and giving the pipes but also the depot is operational, so the distributors can get all the product lines when they send their trucks for Hosur plant.

Hosur plant machines we have deferred as we have been putting money behind the Rex investment, which we have added to our portfolio. Next year in the Q1, we will be adding the capacity of the Hosur plant. Till then, the existing plant capacity will be running at full capacity. And whatever the balance requirement is there will be fulfilled by the plants in Ahmedabad.



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In Ahmedabad, we have almost finished the expansion at Santej. We have made some changes in the production systems, we have brought all the CPVC products to one plant, which were at present till last quarter were manufactured both at Santej and Dholka plant. So Santej plant will be making all new products, technical products and all PVC and CPVC products, which are used for clean water application. We have almost completed the trials for launching new system of valves both industrial and for plumbing and in the Q1 next year we will be launching valves which are used both for plumbing and industrial with the new technology, new designs and with technology from abroad.

We have launched PEX in the last quarter and are getting very good results from PEX. We have already completed close to five big projects and we are about to get good number of projects in this quarter for a new product line PEX, which is just launched in last quarter. CPVC, also we are increasing the capacity in the southern plant and the northern plant. So the dependency on the pipes especially on the Ahmedabad plant will decline.

In CPVC and PVC for the higher size fitting, we are already increasing the capacity in this quarter. So we will be able to make fittings up till 12 inch to 16 inch in Ahmedabad plant and we are getting very good demand of underground drainage systems. So there also we are increasing the capacity, which will be completed in this quarter in the Ahmedabad plant.

Fire Pro. The demand of Fire Pro in last quarter and this quarter is growing and is growing at a faster pace and we are seeing this business having a good growth in the coming next fiscal. In Dholka plant, we are not doing much expansion activity, we are just doing some balancing expansion activity, which is going on, will be completed in this quarter. The Rex, which we have now almost completed one more quarter, has been a new investment for us. Many must be thinking about a lot of things happening especially the corrections are happening, the margins are coming back to normal slowly and we assure you that by end of this quarter, the margins will be much better and you will see much, much gain in the margin. Already the company is growing. It is at quarter level of Rs.45 Crore to Rs.50 Crore business. The growth is there, new machines are coming. Already one corrugator has arrived in India. It is getting installed at our Sitarganj plant in the north. Rex has a plant in Sitarganj. Another two corrugators which are going to arrive in March and April will be one of them will go the Southern plant at Hosur and one of the corrugators will be – list at Sangli, Kolhapur. We will be also putting one corrugator shortly in next fiscal in the plant at Jaipur to fulfill the northern market.

SAP implementation is going on in Rex. Merger application is with NCLT. We hope to finish the merger before the fiscal, if everything goes as the things are moving as of today. Rex has been a great acquisition for Astral. Growth, new horizons, we are now with the government business, with the semi-government business, we have opened Rex products with our distributors, and we are getting great response from our distributors who have started marketing these pipes in the private sectors. So that is one thing, which will grow for us and will keep growing and once the



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capacity is in place, I think the Rex would be jumping to double digit growth and the growth will be enormous in the Rex product life.

So Astral now has well-spread geography right from Sitarganj near Jaipur, Ghilot, Ahmedabad two plants, South Hosur plant and Sangli plant and every plant is getting some way of capital for expansion and especially Rex we are putting good number of capital for the expansion in this next six months. New product lines also will join the Rex family and at some point, we will be also making our old products, our conventional agri products and PVC, CPVC products at Sangli in the near future in the next fiscal. And our look out for the ideal location in the East is on, and we should be able to close the location and decide on it and freeze it in this quarter. So in the next year, we will be starting our expansion plan for the East from that location.

Now coming to the Resinova. Resinova, there have been certain challenges, which are seen in the numbers one, the biggest challenge was, there is a liquidity crunch in the market and we have gone with lot of systemic corrections this quarter as we are growing and the numbers would be close to 600 in a short time and we did some systemic corrections in Astral, which was quite late and which took us lot of time to implement those corrections. Not to repeat the same mistakes, we are going with the systemic correction like we have now billing software with our distributors. We have brought in channel finance compulsion with our distributors. The credits were open. People were enjoying it. We have introduced interest for late payments. And with this, lots of people are now moving to channel finance. So we are improving the systems, billing, the channel finance getting our software to the end billing, software is now with the distributors. There are other corrections also happening especially in the stocks, because we have brought a program for the distributor, which was installed in last quarter and at our end also.

The program runs a FIFO method. So there were issues where the distributor or even the plant would sell the freshly made material first and the old material maybe lying at the plant and as everybody knows Resinova has all its material, which has expiry dates. So all these corrections were happening last quarter, will continue this quarter. But next quarter we assure you a good growth. As we have placed new teams in Resinova for all the product lines. We have made verticals now. We have verticals for the maintenance product. We have vertical for the wood products. We have the verticals for the construction and we would be putting a vertical shortly in next year for the smaller packing or the consumer-based products like ResiQuick and other products, Rescue Tape. For Resinova, everything is moving as per plan. Everything is moving great. There are no reasons for any concerns, but all these things which underpass a phase of corrections and implementations of strategies and new policies do give a little pain and these pains are happening and these are not long growing pain. You will not see the same thing in this quarter.

UK has been doing great. The top line has been growing 35% in last nine months. The EBITDA 160% growth in the last nine months and US operation, the good news is it has started contributing both to the top line and the bottom line and in the last quarter, we have now even



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acquired the rights of the name of Rescue Tape. Now Rescue Tape business, the name and the business was through a trading firm. And we have acquired - the US company has taken over the brand name and the business and it is now directly connected with the company. So US and UK both have been doing good. Even Kenya operations have stopped giving any bleeding in the bottom line. It is now a cash positive business, turning into a prospective business and we will be seeing very good growth and business and the top line and the bottom line additions in the next few quarters from Kenya too. Even in Astral pipes, we have now verticals in sales. We have a vertical, which looks after the agri pipe, the pipes which are connected to mainly the rural business, agri, column, casing. Industrial, we have a vertical, we have vertical for the electrical conduits. We have a vertical for new products, especially in that also we have verticals for PEX and Silencio. We have a vertical for insulation, hanger supports and also vertical to sell the channel drains to the bigger projects. We have vertical to sell only plumbing pipes and plumbing products.

So this reconstruction of the marketing setup is also helping us on the front of growth in both piping business and the industrial business and we will be creating such verticals adding more people and seeing that our business in both these segments keep growing and still keep all the cost under control. Resinova also had a challenge of this year as everyone knows the branding cost and I think the impact of the sales on margins and other impacts will be discussed by our CFO, Mr. Hiranand Savlani. So to conclude Astral has been always committed to growth, new products, capacity additions, take on the market challenges and keep growing. And we assure you this quarter will be a good growth quarter for both pipe business as well as the adhesive business, both in India and the other acquisitions abroad, UK, US, and Kenya and rest of the your queries, I will be answering through the question-and-answer session. So thank you very. As well as we assure Rex to be growing at a good pace in this quarter too. So thank you very much everyone and with this, I hand over the con call to our CFO, Hiranand Savlani, to take you further through the numbers.

**Hiranand Savlani:**

Good afternoon everyone. Thank you Priyank for hosting this call. Now I am taking you to the numbers. First, I will take you to the standalone number of individual company and then the consolidated number. So the standalone piping business revenue has grown up from Rs.390 Crores to Rs.443 Crores, so closely 13.5% kind of growth and if you see on the nine month also it is a similar kind of growth of 12.67%. On a gross income basis, if you see, then the revenue growth is around 15.6% but mainly because of the excise duty and GST effect, the net has come down and secondly because of the Ind-AS. Now earlier we used to charge other expenditure all this scheme-related expenditure or any discounts or everything was charged to the other expenditure but now as per the new revised guidelines, we have to net off against this top line, so that is the reason that the gross top line and all are higher and net is the little lower. EBITDA is working very well. Last year similar quarter it was Rs.58 Crores, now it is Rs.79 Crores, so close to 34.5% jump. On a nine month basis also, the EBITDA growth is 35.6%. So we continue our commentary that we are now focusing more into the profitable growth than the only top line growth and that is repeated in this quarter also.



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Similarly at the PAT level if you see there is a growth of around 32% from Rs.31 Crores to Rs.41 Crores and on a nine month basis from Rs.75 Crores to Rs.99 Crores, so overall 32% kind of growth is there at the PAT level on a standalone basis in piping business.

Now coming to the Resinova, this quarter the top line has grown up to close to 7.2%, Sandeep has mentioned the reason for that little lesser growth, but one of the reason for lesser growth is that if you see the last year Q3, there was a robust growth of 34% in Q3. So there is a base effect also into this number. That is also one of the reason that the Resinova top line growth is lower but we are quite confident that whatever the guidance we have given that on a full year basis, consolidated basis, we are going to grow this adhesive business close to 20%. So we are on a track of, on the nine-month basis that we are growing at a 21% on a nine-month basis our adhesive business. Seal It continuously reporting excellent number for us. This quarter for Seal It, was also excellent, company has grown from Rs.34 Crores to Rs.47 Crores or close to about 36% growth.

EBITDA has jumped to almost 300% from Rs. 1.1 Crores to 4.5 Crores. So it is a robust jump into the EBITDA. So overall if you see the Resinova and Seal It put together, there is a growth of 15% into the top line and EBITDA level if you see there is a slight drop from Rs.20 Crores to Rs.16.4 Crores, so 18% drop in that. But if you see the same number on a nine-month basis, then Resinova has grown up the top line to almost 16% and EBITDA growth of 6% and Seal It has grown up 35% top line on a nine-month basis and the EBITDA growth of 161%. So overall nine-month basis, EBITDA growth and the top line growth is in the range of 20% plus, so like sales has grown up 21% and EBITDA has grown up 22%. So we are almost on the track what we were originally planning for 20% plus kind of run rate for the adhesive business.

Rex is showing the improvement like last quarter, Rex did around Rs.43 Crores top line and again that the EBITDA was hardly anything 2.1% which has shown a sizeable improvement from Rs.43 Crores to this quarter Rs.48 Crores and EBITDA has grown up from 2% to 5.2%. So there is a sizeable jump into the EBITDA and the way now everything is going on a track, we are expecting that this quarter should deliver us at least double digit EBITDA and from the next year onwards, we will be back to our normal EBITDA of Rex, which is around 13%-14%, which we are projecting right now. But it is too early to say for the next year, but right now our focus is that, that the Q4 onward, all this provisioning part and all this write-off part, everything will be there in the system and from next year onward, once the accounts will be merged with Astral, there will be no baggage of the previous legacy, and we all will be Ind-AS compliance as well all the stock and everything will be same policy what the Astral is following.

To sum up all on the basis of these all individual number if you see the consolidated revenue number, it has grown up by 23.7% from Rs.512 Crores to Rs.633 Crores. If you see the EBITDA level, the similar kind of run rate is there like top line has grown up 23% similarly EBITDA has also grown up 23% from Rs.79 Crores to almost Rs.98 Crores. On a nine-month basis also if you see that the top line growth is 21% again that the EBITDA growth on a nine-month basis is



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around 33.57%. This 33.57% mainly is lower than our plan because of the Rex. But if the Rex will come back to the normal EBITDA, which is we are expecting 13%-14% next year, this number will be much, much better in the next year.

So overall other numbers are with you, so I do not want to discuss much onto the number side and straightway, we will go to our question and answer session. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashish Poddar from Anand Rathi Securities. Please go ahead.

**Ashish Poddar:** Yes, thank you for taking my question. So my question is again on the adhesive side, one factor you mentioned in the systemic correction the reason for the margin decline. But is there any business challenge also you are facing there or all the margin decline is on account of this one factor?

**Sandeep Engineer:** No, the systemic correction has not given the drop in the margin, the drop in the margin is mainly because of the branding effect mainly, if you see the current quarter, all this Varun Dhawan campaign and other campaign, all put together, company has spent around Rs. 7.2 Crores on the branding side in Q3. Compared to that if you see the last year, we have spent around 2.53 Crores, additional close to Rs.4.5 to Rs.5 Crores, we have spent on the branding activity because we wanted to launch big range because lot of new product launch is taking place, so we wanted to create awareness in the market, so we allocated this budget for this. And it was a knowingly allocated budget. So because of that the margin is under pressure. Otherwise there is absolutely no problem into the margin side. Gross margin level if you see GP level, hardly 1.5% kind of the drop is there on a full nine-month basis. So there is no pressure on to the gross margin level much, but mainly because of the branding cost. Last quarter also we allocated additional Rs. 3 Crores for this branding purpose and the next quarter also we are targeting to give additional Rs.2 Crores to Rs.2.5 Crores for the branding side. So all put together this event was close about Rs.12 Crores kind of event, so that is why you are saying margins are under pressure, otherwise there is absolutely no problem into the margin side.

**Ashish Poddar:** So you are saying Rs. 12 Crores for the full year on this April?

**Hiranand Savlani:** Yes, 12 Crores for the full year, three quarter, not in one quarter, Q2, Q3 and Q4.

**Ashish Poddar:** And what was this figure last year, full year?

**Hiranand Savlani:** Rs.12 Crores I am telling you the additional.

**Ashish Poddar:** So if you can give the actual numbers for last year and for this year?

**Hiranand Savlani:** Last quarter it was around 3.5, this quarter is around 5, next quarter will be another Rs.3 Crores – Rs.3.5 Crores kind of level will be there.



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- Ashish Poddar:** No Sir, I am asking about the full year FY2018 number?
- Hiranand Savlani:** FY2018 number, I do not have it handy. You can call me separately, I will find out the number and give it to you for the full year.
- Ashish Poddar:** Okay. Thank you so much.
- Hiranand Savlani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities Private Limited. Please go ahead.
- Maulik Patel:** Thanks for the opportunity. A few questions, in pipe the growth is around 4% and has been going down since last couple of quarters, I understand that the base is also relatively high but are we seeing any kind of slowdown because of this funding crunch because of NBFCs or real estate or is there any change in a strategy significantly led to this slowdown?
- Hiranand Savlani:** So basically both the regions are responsible for that. You are absolutely right, there is a slowdown because of NBFCs and all issues, so like Sandeepbhai in the initial remarks said that the liquidity is the big challenge in the market, so that is also one of the reason. So because of that, slightly slowdown is there.
- Secondly, last quarter also, we communicated in advance that we are doing a lot of systemic correction like I can give you an example that last year we were having a receivable of Rs.185 Crores in December, and this year though company has grown up in gross sales basis, 15% plus, 15.6 precisely, till my receivable has come down from Rs. 185 Crores to Rs.150 Crore level. So you can understand that the company is growing 15% run rate but receivables are going down by 15% to 20%, so we are doing sizeable correction into that. Earlier, we were not having individual limit for the distributor plus it was not compulsory on the channel finance and all these things. Now we are making in such a way correction, so that one or two quarters will be a pain, but after that we do not see any pain will be there. So now pipe side more or less systems are set, so we do not see now onwards there will be a pressure on to the pipe side. Now we are doing the similar kind of activity in Resinova, so for some time that will be the challenge for us also one or two quarters, but after that - because we are making a base for the next level of growth.
- Maulik Patel:** Sir do we expect given that this challenge persists in pipe business for the last two quarters or so, and you said that already probably in this bottom of that correction, so does that mean that once probably some liquidity situation improved, the growth rate in the pipe could be much better?
- Sandeep Engineer:** See, growth phase, Maulik bhai, would be always better, they also have a growth phase for the branded, you all know that there are only few handy branded companies who do the business and Astral especially is focused on a huge range in plumbing, our 90 or maybe 95% business comes



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from infrastructure only. So if there is an improvement, obviously the benefit will be great for Astral and at the same time, what we are assuring is that Astral can spread its wings and still keep growing even at a better pace. We are not at 4% - let me tell you - let me correct it, is around 13 net and gross 15 and volume also is close to 7% to 8%. So practically if you see the whole scenario of piping and the way we are working, I think we have a great future and we are trying to get into more disciplined way of doing business, not because we want to be complacent or stringent, but we are now having close to 3600 distributors in pipe and close to 2500 distributors in adhesives and to manage 7000 people buying and doing business with us, part of systems need to be in place on the automatic basis and which are now working very well and still you can see there is growth. It is not that the systems have made any degrowth. It actually has paid off and paying off on the longer run both in improving the margins and keeping our money safe. So I think Astral is poised for a good growth as the market opens up, Astral has been doing business with growth and still getting the safety of all the people who are associated with us. So I think these things will help on the longer run as the market opens up and as the growth phase comes.

**Maulik Patel:** Thank you Sandeep Bhai. Last question, earlier we discussed that and there were signs also that unorganized market which is approximately 30%-40% of the industry size. They will vacate the space and organize players like Astral and others will get that market share, we saw some improvement on that side, some signs, but is that momentum still going further in terms of an organized gaining the market share?

**Sandeep Engineer:** It will keep on growing, and I think it will happen, but what happens in any business or any cycle or anywhere, three die and two come up, two die and one come up. So these whole things will take a few more years and you will see how the organized and consolidated way of business will be done in the future for all the businesses whether it is pipe, adhesives and many other businesses. And a lot of these ways of consolidation and organized player getting into the market, will keep happening and we can see it is happening, but it is a cycle, which will take some time.

**Maulik Patel:** Suure Sir. Thank you and wish all the best.

**Sandeep Engineer:** Thank you Maulik bhai.

**Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

**Sonali Salgaonkar:** Sir thank you for the opportunity. Firstly a little clarification the sales volumes that you have indicated in the standalone pipe, does that include Rex volumes or is it only pertaining to your core pipes business?

**Sandeep Engineer:** It is pertaining to our core pipe business, Rex volume we have not included.



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**Sonali Salgaonkar:** Sure. Sir is it fair to understand that our revenue has grown by 14% in standalone pipes and volumes have grown by 4%, so we have a 10% year-on-year realization jump in our core pipes business, so I would like to understand which segment exactly has driven this realization growth?

**Sandeep Engineer:** So mainly into CPVC business because the rupee depreciated so because of that that pass-on takes place in initial quarters, so that is the reason that you are saying that there is a rise in that realization. And plus there is some improvement into the margin side also.

**Sonali Salgaonkar:** Sure. Sir can we have Rex quarterly or annual volumes and the current capacities because you had also earlier indicated that going ahead you are looking at doubling of Rex capacities?

**Sandeep Engineer:** So Rex is roughly about 24,000-25,000 metric tonne kind of capacity, so once this three new extrusions will be ready and plus we are going to put up our few other extrusion for our regular pipe business because we are going to take the advantage of location of Sangli. So then the capacity will be sizeable, I have to check exactly whether it will be double or how much that once everything will be freeze out the plant, I will be in a position to tell you the exact number, but it will be a sizeable jump into the capacity and exact volume number of capacity utilization is not handy because they are not working on SAP, so arriving the exit volume utilization is difficult for us, maybe next quarter onward we will be able to get that number, once they will be moving to the SAP and then after we will be able to know the exact production volume, exact sales volume, everything all the number and all this analysis will be available to us. Right now, they are working on tele. So it is very difficult for us to arrive the right number.

**Sonali Salgaonkar:** Sure Sir. Sir thirdly as we understand that there was some inventory loss in Resinova which also impacted margins along with your branding campaign, so is it possible to quantify the inventory loss because of the volatility in raw materials?

**Sandeep Engineer:** So like initial remarks, I said that the gross level drop is around 1.5% so practically you can say, almost Rs.3 Crores to Rs.4 Crores kind of inventory loss will be there, not more than that.

**Sonali Salgaonkar:** Sure Sir. Sir my last question, Sir barring all these one-offs like your branding campaign, etc., what would be a sustainable level of revenue growth and margins for all your three verticals, that is pipes, Rex and adhesive? That is from my side Sir.

**Sandeep Engineer:** So this adhesive consolidated, it should be a sustainable margin should be around 13% to 14%, minimum we are expecting, it can improve with the time we have to see that but because UK is contributing lesser margin that is why I am reducing the margin otherwise local level margins will be high, and now UK is also improving because with every rise into the top line of US business which is going to give a better and better margin to UK company and now India has also started contributing to the US because we imported first container. Now we have placed our order for second container, so now continuously India is going to buy from them. If that product will work very well in India, then the US margin will be much, much higher because that



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products have a very, very high EBITDA. So then they may be at par with the Indian margin, but as of today it is coming one year, I do not see that much jump will be there, so on a consolidated basis, 13%-14% adhesive margin should not be the problem, we may try for a higher margin. This is the bottom I am telling you. It will be higher only. And pipe side normally we are working – we were working around 14%-15% kind of run rate, so that kind of 15% kind of run rate will continue in the coming years also in the sustainable basis. Because again in pipe, I am reducing the margin then the current margin because Rex is there. So Rex we have to see how fast it is helping us to grow because from March onwards all the numbers will be consolidated. So that is why I am considering 15% EBITDA for pipe as a whole including Rex, otherwise standalone Astral basis it will be higher.

**Sonali Salgaonkar:** And Sir the revenue growth in pipes including Rex sustainable level?

**Sandeep Engineer:** Sustainable level you can consider minimum 15%.

**Sonali Salgaonkar:** Sure Sir. It is very helpful. Thank you.

**Moderator:** Thank you. The next question is from the line of Praveen Sahai from Edelweiss Broking Limited. Please go ahead.

**Praveen Sahai:** Thank you for taking my questions Sir. Can you give the current capacity in the piping segment and also by year end how much will be?

**Sandeep Engineer:** Current capacity is around 174801 metric tonne capacity, which is published in our this press release also, and we are expecting that this year there will be no rise in the capacity from hereon, the additional 22,000 to 25,000 metric tonne Hosur will be added, Rex addition will take place, and if East will come next year end, another 20000 will be added. So we are expecting close to about 72 to 75,000 metric tonne addition by next year FY2020 end. If East will be delayed then the next year will be around 50000, 55000 metric tonne will be there and 20000 will be maybe Q1 of FY2021.

**Praveen Sahai:** Okay and also can you give some utilization level?

**Sandeep Engineer:** So right now Astral is utilizing somewhere around 60% capacity utilization because Hosur is just added, so next year once all the capacity will be over then there will be – actually we wanted to pause from the next year capacity addition except East, but because Rex is added this year, we are seeing potentially a high growth into that company, so that is why we are adding the capacity into that company plus we want to take the advantage of the locations so we are adding our Astral capacity over there because we can save lot of money into the logistic side in that location, plus we have delayed the Hosur plant which was supposed to commission this year, so that is now commissioning in the next year Q1.



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- Praveen Sahai:** Okay. What is...?
- Sandeep Engineer:** Carryon Sahai.
- Praveen Sahai:** So Sir I am asking about the Resinova at what level of utilization that is running at both the plants?
- Sandeep Engineer:** Resinova or Astral?
- Praveen Sahai:** Resinova.
- Sandeep Engineer:** Resinova is working I think hardly 35% capacity utilization.
- Praveen Sahai:** So 35% on the overall basis?
- Sandeep Engineer:** Yes. We have given earlier also that the Resinova today is in a position which can generate close to Rs.1000 Crores kind of revenue plus UK and all together Rs.1200 Crores to Rs.1300 Crores kind of top line with the current capacity, so there is no requirement or much capex into both the company UK and even Resinova.
- Praveen Sahai:** Okay. Great. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** Hello. Sir yes, Sir you mentioned about branding cost of around Rs.5 Crores last quarter, when I look at other expenses, we have seen a decline both sequentially and Y-o-Y, so what are the other offsetting items in, which have contributed to that end, you can quantify that?
- Sandeep Engineer:** So like I said that now as per the Ind-AS, this other expenditure which was relating to the old discount, dealer schemes and all being netted off from the top line, so that is also the reason that it is getting it netted off. It earlier used to be the other expenditure.
- Anubhav Sahu:** And based on the additional data, you mentioned in one of earlier calls regarding the freight cost and all which has got optimized because of additional facilities which we have now, for example, for Hosur and all. Would you be able to quantify what is the advantage we have got on a Y-o-Y basis because of that?
- Sandeep Engineer:** So if you see that this, Ghilot has just started operation. So it is right now, last quarter, utilization was hardly 23% kind of capacity, so let us keep this plant utilization grow, and then we will be able to quantify the number because it is too early because it is just the beginning of journey. Once that plant will be utilizing at 60%-70% then we will be in a position to know exactly how much saving is contributing to us.



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- Anubhav Sahu:** Got it. Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Kumar Saumya from Systematix Shares. Please go ahead.
- Kumar Saumya:** Hi Sir. Good evening Sir. Sir my question is regarding the sales number that we are reporting. If we take the net sales of Resinova, Seal It and Rex, it comes around 200 million. And the subsidiary sales that we have like 1900 million, so what is the difference?
- Sandeep Engineer:** So then that difference mainly because that subsidiary is selling adhesive to the parent company also like well-known brand of Resinova is selling exclusively for Astral. So that is the getting net out.
- Kumar Saumya:** Okay Sir. Sir that is helpful. Thank you. I will come back in the queue.
- Sandeep Engineer:** Thank you.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** Thanks for taking my questions. Sir my question is on the Resinova side, we have mentioned that we have four verticals now, one is maintenance, second is wood care, third is construction and fourth is small pack. In all these what would be the industrial size of each segment and who would be your major competitors in this particular segment?
- Sandeep Engineer:** For this we can need to have a different con call, because it is a long answer, industry size for different verticals as well as the competitors, I do not want to name competitor openly, but at least we can give you idea on industry size and you can give a con call to Hiranand ji or myself and we can give you the numbers on it.
- Hiranand Savlani:** So basically still to be very honest with you, we do not have any exact authenticated number available with us because there is no authenticated report available on the industry per se. If you are having, I will be happy, if you can share with me, if you are getting that, but you have a broader sense of the market, so based on that we can work out certain number, but again that will not be authenticated number. Overall size of the adhesive product, which Astral is manufacturing, it should be around Rs.14000 Crores to Rs.15000 Crores, I can say like that but individual level, I think we are doing a guess work exactly very difficult to arrive because I am also relying on the few research house, broker like you are publishing certain number, based on that, but I do not have authenticated number of individual product category.
- Akhil Parekh:** Thank you Sir. Where I was coming from is numbers, sir, rough numbers which I have is wood care segment is a biggest segment with basically our competitive services all operates, would like to know where are our key strength in Resinova like in terms of the segment wise.



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**Sandeep Engineer:** So right now we are working on a 7-8 chemistry, out of that the major revenue is coming from four chemistry, so rest of the chemistry we have just launched the product, one of them is the wood care, so we have to keep that patience and we have to give some time that every new launch segment to grow. So we are waiting and watching and seeing that how market is responding to us. But right now the major income is coming from the four chemistry, which can be you can say epoxy, cyanoacrylate, silicone, like these three, four solvents -- I mean, these are four, five chemistry, which is giving their contribution and the rest of the other new chemistry product we have just recently launched, so we are waiting that how they are going to give us the response over a period of time.

**Akhil Parekh:** Okay. Sir what is the product name in the wood care segment?

**Sandeep Engineer:** So it will be Resiwood.

**Akhil Parekh:** Okay. All right Sir. That is it from my side. Best of luck.

**Moderator:** Thank you. The next question is from the line of Omkar Kulkarni who is an Individual Investor. Please go ahead.

**Omkar Kulkarni:** Hello Sir. My question is with additional capacities coming up for higher utilization for the current capacities and margin improvement in your other business, can we say from FY2021, there will be very high growth in the company?

**Sandeep Engineer:** So, yes definitely the utilization from 2021 onwards will be much, much better than the percentage utilization of capacity as of today. So right now we are working somewhere around 60% kind of utilization. I am sure FY2020, we should be at least 75% plus utilization because after 2020, the capex cycle will be getting lower and the utilization is going to improve sizably, and by the time we are hoping that the construction industry should start performing well, which is not doing well since last three, four years, you can see the number of construction industry. So definitely, utilization level will improve with every utilization improvement operational efficiency comes to the company. So it is too earlier to say that how much it is going to help us in FY2021 but we are very positive on that side, so there are, yes probability is there, a lot of trigger is available with us, because we are decentralizing all these manufacturing facilities and all, so that is definitively going to help us over a longer period of time.

**Omkar Kulkarni:** And your margins should also improve from UK and US side right?

**Sandeep Engineer:** Yes. We are expecting that it should improve because it is already improved to the 9% plus level, but yet it is still not optimized, so we are expecting 13,14% margin over a longer period of time, longer period can be another two to three years also, so we have to wait and watch how the US is contributing to that company because that is the higher margin product for us so. Once they will start contributing sizably to them, yes, they can reach the margin similar to the Indian margin.



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- Omkar Kulkarni:** Okay, so can we safely assume your growth from FY2021 will be definitely higher than your current growth, even though our base will improve, like go higher.
- Sandeep Engineer:** Yes. So like we said that we cannot give you one year guidance or two year but for a longer period of time, looking to our current base, we are still hopeful that we will be able to grow 20% run rate in adhesive segment. So it may happen at some time overseas business give you higher contribution sometime local business give you higher contribution, it is very difficult to monitor on a quarterly basis, but on a yearly basis, on a consolidated basis, we are still of the view that these businesses will contribute 20% plus and piping should keep growing at 15% plus run rate.
- Omkar Kulkarni:** Okay. So this 20% growth is revenue as well as EBITDA right?
- Sandeep Engineer:** Yes. Definitely, EBITDA may be more even.
- Omkar Kulkarni:** Okay. And because it will be – your operating leverage will kick in, right?
- Sandeep Engineer:** Right, like even today also you see top line growth on a consolidated basis, is hardly 21% but if you see the EBITDA level growth, it is 33% plus, so it has already started contributing the operation, and once this Rex and all will come to the normal margin, then definitely EBITDA growth will be much faster.
- Omkar Kulkarni:** Okay. Thanks Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ankit Mukesh Gor from Systematix. Please go ahead.
- Ankit Mukesh Gor:** Hi, good evening gentlemen. My question with regards to pricing growth we witnessed in piping segment this time, that was 20%, was it completely led by currency or have we taken any price hikes there?
- Sandeep Engineer:** So whatever the currency if it was there, that we passed onto the market, so that has contributed, when the PVC overall compared to the last year, the price rise is there, so that is also contributing to the high realization.
- Ankit Mukesh Gor:** Okay. And I am trying to understand the scenario, what if the demand slackness remained and real estate market remains the way it is now. Do we foresee or do we adopt any price cuts to go for volumes or what was the situation or what strategy we have adopted in the past in similar situations?
- Sandeep Pravinbhai:** So we will not need any price cuts, already the schemes which we are operating our good enough to keep us growing and without any further drop or any price cuts. There will not be any additional price cuts happening.



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- Ankit Mukesh Gor:** Okay despite – kind of lukewarm real estate scenario as of now...?
- Sandeep Engineer:** We are already in the phase and you are seeing this.
- Ankit Mukesh Gor:** Yes. So in that case you will still go for 15% volume growth ?
- Sandeep Engineer:** Yes. Obviously.
- Ankit Mukesh Gor:** Okay. My question is with regards to UK operation, obviously, Seal It grew handsomely there, was it mainly currency led or if you can break it up volume or something like that...?
- Sandeep Engineer:** I do not think it is related to the currency. Currency may be contributing 4% or 5%, rest of the things are volume only, so like company is growing at a 35% top line, so currency might have contributed 4% max, not much things in that.
- Ankit Mukesh Gor:** Okay. Thank you gentlemen. Thank you.
- Moderator:** Thank you. The next question is from the line of Omkar Kulkarni who is an individual investor. Please go ahead.
- Omkar Kulkarni:** Right now everything seems to be going in your favor, so any risk you can flag off for you company?
- Sandeep Engineer:** So it is a difficult question to answer because risk can come from any side, so it is very difficult to say a particular risk, which we are seeing, but yes political scenario of the country can be a risk to the organization. So we all are eagerly waiting for the outcome of the election. So that can be risk. Then even to some extent, you can say currency can play a role to the risk side, so that can also be another risk, so other than that I do not see it will be a big risk because construction kind of growth is not there in the country for last three to four years, so we do not see from hereon it will be a further dip into the growth. from hereon we are seeing a positive side than the negative side, so I do not think it is a much risk.
- Omkar Kulkarni:** Even though there was no growth in the capex in the country for last three to four years, your company has been growing up wards 15 to 20%, right.
- Sandeep Engineer:** Correct.
- Omkar Kulkarni:** Yes. So I mean, fundamentally, as a company, company wise risk or sector - industry wise, you do not see any risk for the organization.
- Sandeep Engineer:** As I told you that these are the couple of risk is there like political risk is there because something – I do not know what we will be the outcome of the elections, suppose something exert outcome comes from the election, then it is difficult to say what will be the scenario of the



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country and similarly if the currency becomes hayway, rupee may go to 90,100, I do not know. So that kind of risk comes, then definitely it is going to affect the company also, but other than that I do not see much risk is there.

**Omkar Kulkarni:** Would you do not see any risk from industry side right?

**Sandeep Engineer:** No. On the contrary we are seeing that post GST things are regularizing much better way. It is a question of time because right now, government is not getting tougher with the unorganized player, but post-election, we are very hopeful that lot of unorganized players are going to suffer a lot which you will see post elections. So I do not think industry wise we will be having any problem.

**Omkar Kulkarni:** Okay and what is your current cash situation on the balance sheet?

**Sandeep Engineer:** So this is the debt company, so there is no question of cash on hand, so we are always carrying 20-25 Crores kind of cash on the book, but normally it is not a sizeable cash because end of the day we are a net borrower company, and we have recently done the acquisition of Rex where we have paid Rs.75 Crores cash, so because of that we do not have a sizable cash with us, but yes from the next year onwards there will be reasonably good cash flow to the company.

**Omkar Kulkarni:** So from next year onwards till – I mean from 2019 onwards, till 2020-2021 you will be gathering sufficiency amount of cash flow I guess.

**Sandeep Engineer:** Definitely because if you see the current year scenario and if you see the all the reports in public domain in our commentary this year itself in the first nine month we have generated around Rs.275 Crores kind of EBITDA and the last quarter is always the robust quarter for Astral if you see the last 10 year number, and we are expecting a very, very high EBITDA in the last quarter, so on that basis if you consider and we are giving a guidance of overall basis of 15%-20% kind of growth, so definitely there will be a sizeable cash flow next year.

**Omkar Kulkarni:** Okay and so from that cash which will be generating, you will be hiving off your debt, which you have borrowed for Rex?

**Sandeep Engineer:** Yes. Definitely we will be paying of the debt, and that we have to see what to do for that balance cash.

**Omkar Kulkarni:** Like in two years or like one year you plan to plan to reduce that debt?

**Sandeep Engineer:** Like if we work the way right now working then in the next year itself we will be almost close to debt-free company. So we do not see much, but it depends on how the expansion plan is coming to the company, how the new products which are in pipeline, how they are going to be a capex-oriented, all these things are subjective, so it is too early to at this stage to tell you that what will be the scenario. So we are always having a lot of things in pipeline, so which thing will



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materialize, which new product will materialize, it is difficult at this stage to say, if nothing will materialize, then yes definitely we will have sizeable cash flow with us, but normally the way company is known for that innovations and all, we are continuously launching the new product for the market, so we will be keeping the flow in this certain fund as long as the growth is coming to us.

- Omkar Kulkarni:** Okay and can you explain like how is the ROC of individual companies?
- Sandeep Engineer:** I do not have a handy number with ROC of individual companies. But yes overall basis, you can expect from next year onwards it will be 20% plus on a consolidated basis.
- Omkar Kulkarni:** Once you consolidate every business of yours like it will be 20%, right.
- Sandeep Engineer:** Yes 20% plus.
- Omkar Kulkarni:** Okay and on the pipe side, how much it is right now?
- Sandeep Engineer:** I am not ready with the individual number of ROC on a nine-month basis, so we normally do all these calculation at the year end, so exact number I may not be having right now, I have to work out that number.
- Omkar Kulkarni:** Okay. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Mr. Chandra for closing comments.
- Priyank Chandra:** Thank you Bharat. On behalf of Dolat Capital, we thanks Mr. Engineer and Mr. Savlani for talking out time for the call and I also thank all the participants. Hope the call was fruitful for them. Thank you so much and have a great evening ahead. Thank you
- Sandeep Engineer:** Thank you everyone.
- Hiranand Savlani:** Thank you Priyank and thank you everyone.
- Moderator:** Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining and you may disconnect your lines.