



“Astral Poly Technik Limited Q2 FY ‘20 Earnings
Conference Call”

October 25, 2019



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LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Astral Poly Technik Limited Q2 FY '20 Earnings Conference Call hosted by Investec Capital Services 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. Ritesh Shah. Thank you and over to you, Sir.

Ritesh Shah: Thanks, Aman. It is a pleasure to host Astral for the quarterly conference call. We have with us Mr. Sandeep Engineer, Managing Director, Astral Poly and Mr. Hiranand Savlani, Chief Financial Officer. Sir, I will request you to start with the initial remarks and post that we can have a Q&A session. Thanks and over to you.

Sandeep Engineer: We welcome you all for our Q2 results and also on this occasion of lights, Diwali, first to start with we wish you a Happy and a Prosperous New Year and Happy Diwali. Everyone must have gone through the Q2 numbers and the results. Let me start with our pipe business. The pipe business has been doing very good from last two quarters, it is on a high growth path. CPVC has been growing as well as PVC has been equally growing. In this last quarter as everyone is aware that there is an anti-dumping duty on CPVC and which has also helped Astral to not only grow in various regions, but to add to the channel partners also in various regions. PVC equally has its own challenge of upward pricing as well as growth because many of the plastic suppliers had situations of not delivering the product on time as a bundle of CPVC and PVC. What we foresee from six months from now that we will be having a continuous growth in both CPVC and PVC segments of all the product line Astral does. Especially in the CPVC segment, in last quarter we have also done good on our fire sprinkler business. We have done good number of projects, many new markets have started now using CPVC in fire sprinklers. We have also added a range of valves in CPVC in last quarter and which will be actually going through the market from this quarter, so we have done expansion in valve manufacturing CPVC. The plant at Ghiloth in North has in a very short period of span reached a capacity utilization of almost 65%, so that is a very good sign and we have started working on addition of machineries required in next year at Ghiloth plant.

The plant in South, the expansion is over. We have started manufacturing the bore well column pipe from the South plant to deliver it to the South market of Tamil Nadu, Karnataka, and Kerala and part of Andhra Pradesh and Telangana and even the part south of Maharashtra, that is one of the biggest achievement to grow in this segment where we are growing very fast. We have also completed the range of PVC products which we are not making at the South plant especially with the plumbing product the white PVC so that is in addition in the South plant. The South has a huge gap of three lakh square feet plus which is now completely operational having every product line available from that. We are also going to add fitting operation at South plant which the program will start shortly in the next few months and next year we will



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be making all the fast moving fittings of CPVC and PVC from the South plant at Hosur, so Hosur is now a big facility for Astral and Astral will keep on expanding its facility at Hosur for the South. In Ahmedabad, the balance needed expansions are continuously happening at Santej. We are now going for more modernization of the plant and automation of the plant. The Ahmedabad plant, the fitting packing is all automated now, so we have machines which sort out fittings and even packed the fittings, so we have done automation of fittings and packing and now we are going for automation of pipe packing tools, so that will be helping us to not only grow faster, but also save on many fronts.

Similarly at the plant at Dholka, we have expanded our valve manufacturing capacity, our capacity of making drainage fittings, Agri fitting range has been now completely completed, the range of Agri whatever is available by the competitor in the market Astral has and we have started work to make a state-of-art plant to only make complete range of industrial and plumbing valves and this plant will again be operational by next year, so there is a continuous expansion program going on at all the plants of pipes in India by Astral. The roof solar work which we had entrusted to a accompany would be completed next month, so all our plants will have rooftop solar systems operational in a month or so. The land which we acquired at Orissa, the work has started, the building plans are freezed, the projects have been freezed, the controls have to aligned so we have started leveling of the land and shortly within next few months, we will start the construction activity at Orissa, next year by next fiscal middle or before end of next fiscal, the Orissa plant will be completely operational. Apart from that, the low-noise drainage system which we sell to Indian market has also given us good growth, not only in the Indian market but for exports also. We have been now approved by many of the projects in the Globe, in Middle East, in part of Singapore, in US there is a market which we are going to open shortly, and in Africa we have been exporting this product.

The PEX project which we launched, PEX-A is the world class PEX and the world class technology in PEX which is there has been doing good. We have been getting different projects in PEX, we have been supplying PEX continuously in Astral brand under the technology tie-up with the company in Spain, most of their fittings now we make in India and source, from India from our plant itself or from the suppliers, and we would be looking to close on machine and technology on PEX-A manufacturing, which should be again operational in Astral in coming one to one-and-a-half years, so we will be making PEX restructuring in indigenized in India, making PEX which is globally made by very few companies because it is very tough to manufacture, having very high technology and as PEX is available in A, B, and C, but PEX A is the ultimate product in PEX which Astral is going to bring and deliver it to the Indian market and manufacture in India shortly from now.

We are also looking at certain new technologies in double walled corrugated pipes which we will unveil in coming months. Already double walled corrugated pipe machines are now operational. We have expanded the capacity by putting another line in Sitarganj in Uttaranchal, who supply to Uttaranchal and many projects in North. We have machine operational at



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Ghiloth which is a bigger machine which can go up to 1200 MM in diameter and we have another corrugators which will be operational from next month at Hosur. Apart from Sangli, we will be making corrugated pipes in Hosur and Ghiloth which are two Astral plants and Sitarganj was already a plant where the expansion for capacity and the range has been completed. Sangli also lot of decisions have been made for expansion, some of the decisions have been implemented, some of the machines are ordered and on the way. We are already going to expand and put a high-speed machine in corrugated pipes used for cable ducting. We have already acquired land next to our land where we will be taking on expansion program for corrugated pipe, which can be used for water transportation of canals, which will go up to 2000 MM diameter, the project is underway and we will be freezing the same project in next few months from now.

Even the business where we entered last year is on the path of expansion growth and bringing in new technology. Overall in the piping business, Astral has retained its forte of technology bringing new products, modern products, delivering it to the market, making it established, and bringing more technological products and better products, but with the best of the technologies available in the Globe in most affordable way to deliver it to the Indian consumer, that is what we have been doing and we will keep doing it and we are growing on that front. Another good news is that there is a good growth and expansion even in the plant at Kenya, Nairobi. Nairobi-Kenya plant is EBITDA positive, cash losses are now no more there, and we will see good growth and good profit in coming one to two years from the same plant and there will be also expansion happening in Nairobi with our partners there. Overall, the piping scenario especially with the tie-ups of CPVC supplies and the PVC scenario and the product line and the reach in the network creation which Astral is doing and continues to do is going to help Astral to keep itself on the growth path for coming quarters and coming year also.

More on piping business, we will answer when we have Q&A. Coming to adhesive business, as we had already communicated that we are undergoing a change in our network system, the change is completely over. Everything, the new change is in place and new change is stabilized, from last one month it is stabilizing. We are seeing growth, we are seeing positive signs of that, we are seeing the reach has increased, we are seeing the way we structure the adhesive business in segments would, there is a different team and different Head, in maintenance, there is a different team and different Head, construction chemical has a different team and different head and this is all delivering results and I assure that coming quarters will be very, very positive results both on the growth side and on the margin improvement side whatever the best improvement we can. At the same time we had already communicated this change and we have completed the entire change very amicably, very efficiently, without any issues, without any bad debts, without any other issues from the market and this will help us to take the adhesive business to the second level.

We are already expanding the range here, we have already capacities, we will be putting new products, we already launched our rescue tape in India which is doing excellently well which



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comes from United States. We have now Resiquick which is also on the path of growth and actually growth is happening there. We have started aggressive market branding activities which is also helping us, so overall the business is on the positive side for growth and for future of the business. Coming to the adhesive business in UK, which is also doing excellently well, bonded has been giving excellent growth numbers and margin numbers, which I think Hiranand will share. Similarly, the US operation is also in EBITDA positive and no cash losses are happening from last six months, so that also is giving a very, very positive result.

Overall, to sum up the businesses are doing good, pipe as well as adhesive, we have a good bandwidth of manpower which we have increased. We have gone with programs for dealers, plumbers, carpenters, which are now run on apps and are controlled by the technology. We are expanding ourselves on the technology front in the business, product chemistries, bandwidth of key manpower resource, we are continuously adding key manpower resource because we need them with the growth. The think tank is becoming bigger and bigger. From last six months, our think tank has become quite big and we have a good source of manpower who is helping us in the growth. We assure you in the coming quarters and month to continue on this path of growth and delivering good growth and numbers in coming quarters. I will hand over to Mr. Savlani to take you through numbers and then we can go through question and answers.

Hiranand Savlani:

Good Afternoon everybody. Thank you Ritesh for hosting this con call and Happy Dhanteras to all the participants and wish you a Happy Diwali and Happy New Year in advance. Now all have the numbers in hand, so I will quickly go through the numbers and we will focus more on the Q&A session. On consolidated basis, if you see the Q2 numbers the revenue growth is around 8.5%, but the EBITDA growth is 24.16% and PBT growth is 34.54%. Continuously we are giving the commentary that now our company is focusing more on the margin front and margins will be better than the top line growth, and because of this tax effect the PAT jump is roughly about 82% mainly because of the reduction into the corporate tax announced recently by the Government of India. Now, coming to the segment side, the pipe growth in the last quarter was roughly about 14% in value terms and roughly about 17% in the volume terms, how I have calculated 17% I can explain you that last year we were not having the volume numbers of Rex, so this year we have the numbers of Rex, so we have removed from a total number the Rex number, last year number were only standalone number of Astral Pipes not the Rex number, so if you remove this 2823 metric tons from the number which we have published that is 34,620, if you remove 2823 it is coming out to be 31,793 which you work out on 27,250 roughly about it will be 17%. Similarly, on a half-yearly basis, out of total volume sales number of 66,349, if we remove the half-yearly Rex volume number of 5796 metric ton, it will come to 60,553 metric tons. If you work out on last year's volume number of 49,726, it will be precisely 22% volume growth ex-Rex. With this Rex number, we have already published.



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EBITDA growth in the piping business was around 36%, PBT growth was 56%, and the PAT growth because of this benefit of the tax, it was very huge jump 130% from 30 crores to almost 70 crores. Now, coming to the adhesive side of the business, the revenue growth was negative by 6% in Q2 that is mainly because we communicated in our last communication that we are changing the structure, so because of that we have to take back the inventory from the stockist so that is why it is shown as self return and that is why the top line is showing negative, but if we remove the sales return it is a positive number and that is also one of the reason that inventory has gone up other than the piping side because of this return of the goods in the last quarter. EBITDA was also because of that negative because we have to take the loss on the return because when we book the sales that time profit was there, when we took the return we have calculated the valuation as per the cost, so to that extent margin has dipped so because of that the EBITDA is negative by 14%, but overall if we net out this effect the EBITDA number is also positive and the top line growth is also positive, and from here on we are seeing that now we are almost done I can say almost 95% work is done, but maybe negligible things can come out to this quarter, but otherwise we are done so from here on we are seeing that there should be a margin expansion also and that should be a top line growth also into the adhesive side of the business.

Now, overall scenario of the pipe and CPVC and PVC as Mr. Engineer explained is very healthy and it is not restricted to only Astral. All the organized player in the industry are doing well, so we are foreseeing that coming quarter it should be a healthy growth, but yes on the ground the situation is not that great, so we have to keep always the caution and we have to be careful, so that is why we do not want to unnecessarily speculate the numbers and all for the growth, but overall the scenario is good. We are seeing a positive scenario on the ground particularly in the piping sector. There can be a reason of shift from unorganized to organized side and there can be reason for some space on the organized player also into the piping sector, so that is also contributing to the all existing organized player in the market. Market is full of challenges, but within these challenges also as communicated in the previous quarter that our company's focus is on the balance sheet quality and which you can see very well in this quarter also.

In spite of so much of challenges on the collection and liquidity front in the market, we have tried to tight our collection cycle and you can see last year September, the receivable outstanding was roughly about 280 crores. Again that this year, it is 275 so almost absolute level, there is a drop. In spite of that the company has grown up topline by 17%, so we are, very, very cautiously going into the market. We do not want to focus only growth, but the main target for our company is to the balance sheet side and particularly into the receivables side. Inventory side also if you see there is no much increase in the inventory, last year it was 445, this year it is 485 so roughly about 9% increase in inventory again the growth of almost 17% and little bit increase in the inventory was mainly because of the return taken place into the adhesive business as well as we were expecting the price revision into the CPVC front because of the anti-dumping duty, so we have purchased the CPVC little higher than our normal



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requirement to take the advantage of the price rise in the market, so that we can take the volume advantage in the coming quarters also.

As explained by Mr. Engineer, the expansion work is going on smoothly and you can see in this quarter also, we have added 15,700 metric tons into the capacity, so our capacity which was last year 174,000 metric tons which has increased to almost to 220,000 metric tons, so expansion is going on with very smooth way and we are seeing that some capacity expansion will take place in the second half also particularly into the Hosur. Now, coming to the net side, we are a very healthy position and the net debt to the balance sheet is roughly about 170 crores because we are having total debt of 229 crores and we are sitting on a cash of around roughly about 59 crores, so net debt is roughly about 170 crores, which is negligible debt into the balance sheet, so with that I am opening up the question and answer session. Thank you very much.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, first question is on other sales, you did highlight the distribution reach that we are doing, can you please provide some details on the changes in management responsibilities with the new addition that we have done, and secondly by when do we see a 30% revenue growth on a QOQ basis, that is my first question? The other question is if you could indicate the market size for valves and bore well pipes, and lastly any update specifically on the product launches from ADS that we had spoken about earlier?

Sandeep Engineer: Coming to adhesives, the bandwidth of manpower especially where you have asked that how we will, the reach creation is already complete. We actually had gone in the fashion of keeping very big distributors and putting our distribution channel under them, so our channel was already established and working and we added quite a few numbers of new distributors in every region. This was a process of almost eight to nine months I do not say it happened overnight, we actually started the change from Jan-Fab of this year 2019 and we actually completed it a month back. Today, the laying of the channel and the distribution network for every state is almost complete, but still it is dynamic the addition and deletions will keep happening always till it happens in pipe which such a big size and we had State Heads, which are already there. We have the smaller people working in the retail market, which are there. We have the Heads which are between them and State Head are there, the network of the manpower already was there.

Only at the HO level, we have inducted and are in the process of inducting a few seniors at every level, some of these inductions will happen in coming 10 to 15 days to a month, we cannot disclose any of these information as of now, but right way of correction, the right way of induction, and right amount and right quality and right knowledge which is needed for the industry to drive the manpower bandwidth is increasing and will be increased in a few days



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from now. Getting into your number of 30% growth, which I would not say it is not possible but at the same time I would say that first let us at least get back to that 15-20, let us stabilize ourselves. You all know there are challenges in the market on the front of the rotation of the money. The cycles are little slow from all angles and so we want to grow, but not to grow with huge debts in the market. We want to grow with right distribution channel where our money cycle is safe and happens just like what is happening in bike market as well as the adhesive market with other companies, so yeah it is a dream for us to get into this figures of 30 plus but it will take us some time and we would like not to comment on this how much time it will take, but that would be our goal to reach, but I assure you that adhesive is going to give good growth and good numbers in coming months and coming quarters.

Coming to the valves business, valve business is huge globally. There are very few companies who make valves and I am not only talking of valves which I want to get into is for the plumbing. The valve business is much bigger in industries that have come in. Our focus is to get into not only the plumbing valve range but also in the manufacturing of valves needed for industry like ball valve, butterfly valve, and various other valves, so it is a process which will take two to three years to add this four range. It is a process which will need high expertise, it is a process which needs quality controls, checking controls so valve business is something which can be treated as a global business and we would be also going in valve business up till higher sizes up to 12 inch and even higher bigger size valves, so that is what our program is and I cannot quantify the numbers which will come, I can quantify there will be good growth, good numbers and always valves globally you see deliver better margins and pipes and even fittings, so that is our goal on valves.

The business of bore well or the column pipe, we have been growing at good pace and that is why that is the reason we have increased the capacity, one. We had constraint to deliver to the market a few months back and we had to lose order or our delivery time was 10 to 15 days, so we are filling this gap and we are making it more regionalized because South is a big market for bore well pipes, so we are in Hosur for transportation cost and time to make product available can be reduced. Now coming to ADS, we have already that product here, but we are working on this segment of water harvesting which is called and this is the subject of not only in India but the world today, no doubt we got good rains, so people will forget for sometime but actually when you get good rains, you have to have good harvest, so to be fair let me not come out with any of these pictures on water harvesting and how we are planning, we would be letting you know about this in maybe next con call or at the end of the year, but we are working on this subject and this vertical, I cannot treat it as a part of plumbing, it is a vertical of water harvesting, which itself is a big subject and once we have some firm footing on this, we would come back, but yeah we are working with ADS and its product lines and we will come back to you on what we are doing and what are our plans and how we are unfolding them in maybe one or two quarters and then we can let you know how we are going to take it ahead from there on growth plans and in the market.



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

Sonali Salgaonkar: Sir, my first question is at this point in time do we maintain our FY '20 guidance that in terms of volume growth, we have kind of over delivered in the first-half rather than what we had set out at the start of the year at 15%, but I am asking more from a point of view of double-digit growth in adhesives, and also wanted to understand what is happening in Rex in terms of are we bringing the margins back on track in terms of steady state levels that we had set out at about 13% to 14%?

Hiranand Savlani: Thank you Sonali for your three questions where they are in one question, so first coming to the pipe side, pipe yes, we have communicated 15% kind of volume growth and the first half we have delivered roughly about 22% volume, so yes we are ahead of our guidance, but you know market is full of challenges, but as on today it looks that we are going to definitely across our guidance, how much we will cross the time will tell but the ground reality that right now the market conditions are good, so hopefully keep fingers crossed, we will be overshooting our original guidance of 15%. Now coming to the second question of your Rex, so Rex is doing well but yes volume growth is still not picking up much because of many reasons particularly whatever we can say, but that area of Sangli is flooded. Even day before yesterday was also heavy rain over there and water was logging in the factory areas also and even last month also it was a similar kind of situation, so we will now I think sorting out all these issues and now we have added the capacity to other plant also for the Rex product, so that is going to help us into the logistics front and that will help us to grow the volume in the coming quarter, but yes on the margin front, we are back, we are doing a very healthy margin into that segment also, it is not like a 6% kind of margin which you saw in the last year, but we are crossing the double-digit margin into the Rex also.

Your third question was relating to the adhesive, adhesive also we have already communicated in the earlier remarks that we are working hard on that and whatever the correction we wanted to do, I think almost it is done. I say it already that 95% of the correction is being done, little bit maybe left out which can be completed in this quarter, so hopefully, you will see the adhesive number will also be back. It is too early to say that we will be delivering double-digit growth on a full-year basis, but yes definitely the second half will be double-digit growth into the adhesive. We will try our best to cover up the shortfall in Q4 and we have worked out the plan also for the higher growth in Q4, but keep fingers crossed because we are working on multiple front. As and when the time will come, we will unlock how we are doing and what way we are doing, so we are very positive I can say like that but it is very difficult to say at this stage that on a full-year basis we will be able to deliver double digit growth or not, but we are trying our best, we will see that how best we can deliver.

Sonali Salgaonkar: Sir, in terms of CAPEX 125 to 150 crores, is that the number we should?



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- Hiranand Savlani:** I think we will resting to that number and I think we have done roughly about 80 crores or so in the first half, 75-80 crores so we are almost on track.
- Sonali Salgaonkar:** Sir, my last question most of the industry perspective, as you rightly said in the initial remarks that for over the past few quarters, we have been seeing quite healthy growth in pipes especially on the volume front as well, so could you please help us understand which sectors are doing better than the others and where are we finding traction, what applications are probably the highest contributors in this volume growth?
- Sandeep Engineer:** In the plumbing sector, CPVC as well as PVC is having good growth, so there is a growth there in the plumbing sector. Also there is a growth happening in the new products for us also. Especially the sector of the infrastructures industry is growing for us in the demand of pipes for CPVC and PVC. One thing which I wanted to add apart from the Rex growth which you should know is that the Rex products are always on the low growth in the monsoon because all the products which Rex makes is for drainage and sewage which always is laid below the soil, so you have to make pits and lay these pipes, globally this happens. If you go to Europe, you go to Germany, you go to United States, all these road works and this drainage works even in United States are taken up in the summer season, so now on you will see a good growth of Rex product till March because this time the monsoon was long, the range kept on coming for a longer period and that is why a lot of these infrastructure works which are undertaken to use this pipes were almost at a halt, so I just wanted to clarify on this thing also.
- Sonali Salgaonkar:** Sir, probably as an extension of this I wanted to check, are we seeing any green shoots in construction coming back because you mentioned that plumbing sector is doing well for us, so just wanted to understand is this the new demand that we are speaking of probably the replacement demand?
- Hiranand Savlani:** It is both replacement and new, retail level it is also growing and projects level also is growing, but I do not want to go deep into the analysis which you are better off all of you sitting on the other side, what are the weaknesses in the whole of the industry in the piping segment which is going to help Astral continue its path of growth, so I think you know everything sitting on the other side about the scenario of the industry, scenario of the polymer, and all this scenario put together will be helping at least Astral piping segment to keep its growth path.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Couple of questions, one on this CPVC and this was also one of the reasons for the significant gross margin expansion in this quarter, how long do you see this CPVC scarcity to last?
- Sandeep Engineer:** Till the Government does not come to a decision, I cannot tell that number.
- Maulik Patel:** Currently, it is around six month right, Sir?



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Sandeep Engineer: Basically, I should not comment on a Government thing, it is better that the Government decide on this.

Maulik Patel: But what kind of an approximate number has to be given, that how much CPVC is not coming from China and Korea?

Sandeep Engineer: I would not go in to that number also because the import data are available, but practically nobody is importing from last two to three months because actually it is unviable. If you import, you end up paying 90% duty, actually import cost is becoming more than the selling cost of the product. You can make the figures that if a guy is going to import and pay 90% duty and above that 10% on the customs duty and plus, all the other challenges and then make a compound and then sell, practically I think he is actually going to make loss in selling those pipes. Now, when you come to the numbers of China and Korea, if you go in the history they are giving India 30% to 40% of CPVC, where 40% of your monthly need goes out of the whole chain, it is obviously going to create scarcity, 40% going out of the chain is not going to be fulfilled by three manufacturers, out of which one only goes in the mode of licensee. Again, there is their constraint and other two have global markets also to fulfill, they do not only have Indian market, so practically there will be a continuous shortage happening on CPVC till the situation does not normalize or stabilize, so we do not know it is six months, one year, one-and-a-half years, how much time it would take to stabilize and normalize the situation, but practically today to import from China and from Korea is not viable for anyone except he decides to be in the market and make loss and still supply the material. He takes a call to make cash losses and still be in the market, that is individual call that I cannot comment on, but history says that whenever anti-dumping duty step is being taken by any Government in India, normally it will ask for three years, but of course it cannot continue with 90% kind of duty which is totally unviable, but yes, anti-dumping should continue for at least three years. Secondly, Government has a timeline of six months but past history also says it is not a binded timeline it may even take one year also or one-and-a-half years also, it is a binded timeline, but you can understand that it has options also to keep on improving its investigation and take time, we do not know about that so we are nowhere or no capability or not even the authorities to tell you about that.

Maulik Patel: Second question, I always ask you and this is related to the unorganized market, so compared to the last when we spoke to today, has the unorganized market shrunked further because of the various cash crunch issues or whatever you want to and now the CPVC is again going to hurt some of this unorganized player?

Sandeep Engineer: Obviously, the unorganized they have its own challenges and the organized market with the polymer variants and with the CPVC is going to have its own challenges and with the cash cycle is also slowing down in the market, so it is not one fund, you can imagine there are many funds which have been attracted in one go so we can say that it is just a beginning of the journey, long to go because do you know that the size of unorganized in this country is roughly



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about 35% to 40%, so Rs. 30,000 crores of industry the 35% to 40% works out to be 10,000 crores to 12000 crores industry, so it will take its own time but today the situation is that not only unorganized people are suffering even the organized players are facing lot of challenges, so it is very difficult to say in terms of quantify, in terms of percentage, but yes on ground things are changing, but it is not highly visible clearly because overall market scenario is also slow, so going forward I think this will be acute and which can be clearly visible may be few quarters down the line very, very difficult to say when, but yes next four to five years we are seeing that sizeable shift should take place to the organized side.

Maulik Patel: The last question to you Hiranand, I am sorry I missed that number, what is the Rex contribution and the revenue this quarter and what is the CAPEX we have done for the first half and what could be the second half?

Hiranand Savlani: Like I think 75-80 crores we have spent in the first half in CAPEX and in that couple of machines were related to the Rex which Sandeep had already explained that one in Ghiloth and one machine in Sitarganj, and another I think 50 to 60 crores CAPEX can come in the second half also may be little more also. We are putting up roughly about additional Rs. 20 crore into the solar rooftop also where we have worked out the payback of that 20 crores will be almost 33% annually, so less than three years payback is there for that kind of arrangement, so we have allocated Rs. 20 crores for solar side. That benefit you will find in the Q4 number because we are targeting to complete, some portion might be completed in November and the rest of the things will be completed in December, so Q4 onwards this solar related benefit will be reflected in the number and you will see that lot of reduction will be there in to the power cost, because 100% we are going to self consume and some portion will go to the East plant also and some machines will be installed in the Hosur also, so almost 50 to 60 crores we have planned maybe 10 crores plus or minus can also happen.

Maulik Patel: In nutshell around 150 CR of CAPEX in FY '20?

Hiranand Savlani: 125 to 150.

Maulik Patel: What was the Rex revenue for this quarter?

Hiranand Savlani: I do not have the exact number now because it is merged with Astral, but it should be somewhere around 37 crores or so, I am guessing, maybe 1-2 crores here and there.

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

Praveen Sahay: Sir, my first question is the total capacity you had given for the pipe is around 221,000 metric tons, how much is the capacity of the Rex right now?



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Hiranand Savlani: Rex I have to work out, but last year it was around 22,000 something and then another 5000-7000, so roughly about 30,000 metric tons.

Praveen Sahay: By year end, how much the pipe capacity you are going to end with?

Hiranand Savlani: So year-end will be another 5000 to 7000 metric ton a day, but the next year sizeable jump will be added because of East, so originally we guided that once the East will be completed our capacity will be 250,000 metric tons. I think it can be little more also.

Praveen Sahay: On the Seal It number, Sir, can you give some color on that as well like because overall we can see, but how is the Seal It performance for the quarter?

Hiranand Savlani: So overall performance of Seal It was good. They have delivered constant currency growth of roughly about 5% to 6% in this quarter and in Rupee term I do not know exactly the number but constant currency was around 5% to 6% kind of growth and they have delivered the double digit EBITDA margin also, so overall looking to the UK condition when the GDP growth is hardly 1%, this year we are expecting and they should be delivering minimum double-digit growth to us and double digit EBITDA margin also. EBITDA side they are constantly improving and with the contribution of this rescue tape will increase then the margin expansion will be there in the coming quarter, that is what we are targeting because now Resinova has already started selling the rescue tape and shortly we are going to open up the rescue tape into our Astral channel also, so these are very, very high end margin products, so if the smallest contribution will increase then the EBITDA will shoot up, so keep finger crossed at coming quarter, the Seal It should deliver the good number.

Praveen Sahay: Sir, any number on the rescue tape, how much of the sales you have achieved so far?

Hiranand Savlani: I think right now they are doing roughly about 700,000 to 800,000 quarterly in US Dollar terms which will increase in the coming quarter, so our target is that at least 1.5 million they should reach in maybe one year or one-and-a-half year down the line minimum.

Praveen Sahay: Sir, lastly on this corporate tax cut where you are going to utilize that?

Hiranand Savlani: Setting up an state-of-art R&D and application Centre, the plans were already there and because of the CAPEX cycles we had put that hold, but now we will be starting the work. We will be having one of the world's best state of art Centre for R&D in the polymer business. The adhesive has its R&D Centre and there we are also putting up an application Centre where at one go minimum 250 to 300 end-users can be trained, consultants can be brought and technically explain the product, hands-on training can be done, there can be auditorium for people to go through things and at the same time we can have course also running there and the work will start shortly. We have the land next to our plant, we have the plans ready, we have everything in place, I think we are going to start this project.



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Sandeep Engineer: Secondly, I already mentioned that we are now giving focus to the renewable energy also from the environment point of view also it is good for the country also and at the same time it is good for the company also because the payback of this kind of investment is very fast, like the rooftop I already said that it is less than three years payback and we are planning to allocate some more money into that side may be next year because we are expecting a huge cash flow into the next year. I already explained your our debt is hardly 170 crores and the way business is growing and the way cash flow is coming to the company, hopefully, next year we are expecting a sizeable jump into cash flow, so we can allocate some more money into the renewable side particularly for the self consumption. We do not want to sell a single unit to the grid, whatever we will do the CAPEX that will be for the self consumption. Other than rooftop also we have worked out that the payback is roughly about three to three-and-a-half years only, so it is a healthy return into that segment also, so we will come up with the exact number and the plans once we will close this year and we will see our free cash flow what is available to us in the analyst week next year, at that time we will give you the number.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, I have two questions one is how should one look at the promoters holding in the company that is one, if you could detail a bit over there? Secondly, if I look at the working capital on consol less standalone businesses, which will be reflective of other sales, it has moved up a bit since March, from 90 days to 112 days, how should one look at the trend line over here?

Hiranand Savlani: Ritesh, we have already clarified earlier communication that inventory and all into the adhesive side and all has gone up mainly because of the sales return taken place, so that will be corrected in Q3 because Q3 there will be not a balance sheet on the public domain, but we will share all the key numbers in the Q3 con call, once the Q4 number will be out, full year balance sheet, you will see there will be a substantial drop into the inventory level also because these are the high inventories which we are planning to keep with us because of this price rise into CPVC front and because of this return of goods in adhesive side, that is why you are seeing inventory is high, but still compared to the growth which company has done in the first half is not high, so I do not think there will be any stress into either adhesive side or the pipe side into the working capital cycle. Secondly, because of the liquidity crunch in the market we are getting an handsome discount on the cash payment side, so sometime you will see that some creditor days will come down, but that is the strategy of the company that if we are getting an handsome discount on cash, we do not have a problem with the cash and bankers are ready to fund us at 6.5% today, so we will be comfortable to take that advantage and improve our EBITDA, so I do not see any problem into the space to any level in working capital cycle. Now, coming to your question of promoter holding it is already in the public domain, whatever Mr. Sandeep has told that is also in the public domain and there is no change other than that.

Ritesh Shah: Sir, my question is pertaining to can there be incremental supply from the promoters, I am just asking to make sure that there is no?



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- Hiranand Savlani:** Absolutely zero in next six to 12 months minimum, technically we are communicating.
- Moderator:** Thank you. The next question is from the line of Asim Bharti from IDFC Securities. Please go ahead.
- Asim Bharti:** Sir, could you comment on how PVC and CPVC resin prices have moved during Q2 and how they have trended so far in Q3?
- Hiranand Savlani:** Like Q2 both were on a upward journey, so CPVC has also gone up because of the anti-dumping duty and similarly PVC was also on the upward trend in the Q2 and Q3 onward PVC had started dropping now. The first cut was Rs. 3 per KG by Reliance in the month of October and CPVC we do not see there will be a drop into price, but more or less now from here on, it should be maintained, we are not seeing upward rise into the CPVC side in the market.
- Asim Bharti:** On the PVC front, do you expect any further drops on this?
- Hiranand Savlani:** Very limited space is available into the drops and maybe Rs. 1 or 2 more may have a cut but more than that we do not see because now the seasonal month will start, it is a cycle actually because of the monsoon and festive time there is a little slowdown some of the demand, I do not see any further drops actually, again it will go up.
- Asim Bharti:** Sir, in your pipes EBITDA reported in Q2, is there any component of inventory gain and if yes, can you quantify the same?
- Hiranand Savlani:** Maybe small gain will be there, very difficult to quantify exact number, but not a sizeable gain.
- Asim Bharti:** So most of the EBITDA if margin improvement has come is mostly because of operating leverage benefit and Rex EBITDA that has been improving, that is the key takeaway right?
- Hiranand Savlani:** Two things, Rex improvement as well as you can say the realization improvement because we have increased the CPVC price by 8%, so that is the main reason into that. It is not only restricted to pipe business even if you see the adhesive business also, there also gross margin has improved. If you deduct the number from consolidated to the standalone pipe business you will see there is improvement into the adhesive business gross margins also, but actually it is not reflected into EBITDA because there was a drop into the top line, so because of that, all my cost has gone up, whether it is employee cost, whether it is administrative cost, whether it is any other expenditure cost, but now once the second half the volume growth will start and top line growth will start coming then all economy of scale advantage will be there, so I am quite confident that in the coming quarter adhesive business also will be having a good EBITDA growth because actually gross margin has improved in first half, but it is not reflected into the conversion into the EBITDA because of this low base because of the degrowth in the top line.



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Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Sir, my question is regarding is there any new capacity of CPVC pipe coming into the industry?

Hiranand Savlani: I am not aware of this, maybe existing player might be increasing the capacity, but I am not at least aware that the new player is getting added. Many people are talking but I do not think I have any authenticated news with me that somebody is coming with so much of capacity or what, existing player might be adding the capacity.

Dhiral Shah: So then what would be the size of CPVC industry in terms of metric tons?

Hiranand Savlani: I think it should be roughly about 150,000 metric tons.

Dhiral Shah: Sir, are we seeing any kind of initial sign of benefit from the Government mission of *Har Ghar Jal*?

Hiranand Savlani: Still the policy is getting worked out at the Government level, they have not announced the final policy draft or anything what they want to do, but that can be a very big opportunity but as of today I do not think any number is available with us, if you guys have please share it with me, but I think they are still working.

Dhiral Shah: Lastly about the replacement market, so what could be the opportunity in the replacement market?

Hiranand Savlani: Replacement market of what?

Dhiral Shah: DI pipes or steel pipes which are there and which will replace with the plastic pipe?

Hiranand Savlani: Still the replacement is going on because if you see any building which is below, because CPVC started in the country in 1999, so almost 20 years. You pick up any building 15 years plus it will be having the metal pipe only for water application so still opportunity is there.

Dhiral Shah: What could be the percentage, Sir, which has not been replaced?

Hiranand Savlani: Very difficult to find out that number because there is no research being conducted on the replacement market by any of the analyst, at least I do not have an authenticated number which I can share with you.

Dhiral Shah: Lastly, you have taken a price hike of 8% in CPVC?

Hiranand Savlani: Yeah.



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Dhiral Shah: When Sir?

Hiranand Savlani: Like in August we took 3% price rise and in September we have taken another 5% price rise, so the full benefit of this 8% you will see in the next quarter.

Dhiral Shah: Sir, this is because of the anti-dumping duty or is it a strong demand growth?

Hiranand Savlani: Both you can say.

Sandeep Engineer: Everyone has done it, it is not only we have done it.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Ritesh Shah for closing comments. Thank you and over to you, Sir.

Hiranand Savlani: Thank you Ritesh once again supporting us and thank you to all for participating in the con call and wish you all a very Happy Diwali and Happy New Year in advance.

Sandeep Engineer: Thanks everyone and looking forward again to connect with you after three months from now and have a great Diwali and happy holidays. Thank you everyone and thank you, Ritesh.

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