



“Astral Poly Technik Limited Q3 FY-20 Earnings  
Conference Call”

**February 12, 2020**



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**MODERATOR: MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Astral Poly Technik Limited Q3 FY20 Earnings Conference Call hosted by Axis 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 conference, please signal an operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Kashyap Pujara from Axis Capital. Thank you and over to you sir.

**Kashyap Pujara:** Good evening and thank you so much for standing by. It’s a great pleasure to have with us, the senior management of Astral Poly Technik to discuss Q3 FY20 Results from the management side we have Mr. Sandeep Engineer who is a Managing Director and Mr. Hiranand Savlani who is the CFO. I now hand over the floor to Sandeep. Over to you sir.

**Sandeep Engineer:** Thank you Kashyap and thanks everyone for joining this Q3 Results Concall with you all and I would like to take you through the business of pipe and adhesive one after the other.

In the pipe business, the numbers are already in front of you. Looking to the challenges of this quarter, one was the extended monsoon and second was a very aggressive festive season in the month of November. Still we have delivered a good set of numbers with growth and also with good margin.

We have overall grown in piping segment, in our core business of CPVC and even the PVC business and the new products.

To take you through the expansion programs:

We already have completed the expansion in all South plant at Hosur. New machines which had to be brought and add the capacities and even make a few product lines which were actually being supplied from Ahmedabad is complete and Hosur now makes complete product line and Astral Pipes. And the expansion of which was going on at the North plant, Ghiloth is also complete and we are also undertake expansion program for double-walled corrugated pipes, which will also be complete before the month of March. But the corrugators for double wall corrugated pipes in Hosur is completely operational, we are supplying the double-walled corrugated pipe up till 300 mm from Hosur, for the South market. And in the North Ghiloth also we have a bigger corrugated up till 600 mm which we supply to the North and the central market.

Orissa, land was allotted when we were on the last concall. And when we are in today’s concall the construction work for Orissa plant has started and we should be up and running the Orissa plant in next 9 to 12 months.

There was an expansion program going on at Sangli plant for adding of certain product line, for balancing certain product lines, for de-bottling certain product lines, and also streamlining the operations after takeover. And most of these programs are over and the remaining work of these programs will be completed by the month of March.

Ahmedabad, the mother plant, the Santej plant also underwent certain expansion programs of atomization and today proudly we have automatized many things and like packaging, injection molding operations at the Santej plant and also some balance capacity addition has happened at both Santej and the Dholka plant. And we have added injection molding capacity at both the plants in this quarter and it is up and running to feed the requirement of this last quarter. We had some balance fittings which we had to make, and we have completed this program also. These fittings are mainly for agri and certain other product lines and today proudly we have complete product line. We've all the product lines with every fittings available from in-house. And we have also added certain fittings or industrial use also in CPVC and PVC.

The expansion program at Dholka is on to make indigenous plant, a standalone plant to make complete range of industrial and plumbing valves. And this project, construction is on, machine ordering is on and we are also in the process of procuring certain molds for this plant and we already have streamlined a range of valves for which we are procured the molds and technology from Europe.

So, as Astral continues, growth continues, development continues, continuation upgradation and continuous addition of product line is on. We have been importing PEX under our own brand PEX-A Pro from Europe and have been feeding the Indian market. The PEX market has a positive response from the market, we have been seeing consistent business. We are getting good growth, we are getting good projects also and we would be making PEX in-house in a year from now and the process for this for the technology sourcing and for the machine sourcing is already on and will be completed before the month of March. And Astral would be the company making the best of the PEX available in the world. That is PEX-A, PEX comes in three PEX, PEX-A, PEX-B and PEX-C with different properties and grades. But PEX-A is the highest cross-linking and the best properties of bendability and temperature to resist high temperature so we would be going with PEX-A, PEX-B and C are cheaper technologies but don't have the bendability and the lifespan also of these products is very low. For PEX, we are going with one of the best technologies.

Silencio has got a very good response from the market, it is consistently growing. We have been getting good export orders for Silencio and Silencio capacity addition is on. So we are going to double the Silencio capacity a year from now and we have almost finalized the sourcing of the machines and also made the necessary ordering of the same. So there we have a good response, the capacity would be doubled in a year from now because the machine takes a year to get it delivered.

Overall the Clamps, Hangers and lot of other product installations which we source and sell to complete our buffet are also getting good response. So, as Astral right from the electrical pipes, to the plumbing pipes, to the infrastructure piping, to the fire pipes or fire sprinklers all the product line has got a positive response of growth from the market and it is continuously developing.

We are also running certain programs which have got good response like the plumbers program, the dealer attachment programs and we are also working on lot of other systems which would be helping the network to move fast and distributor connect, the customer connect, the service, how to attend to the customers, all these programs are on and these are also giving positive response.

So, branding activity as usual Astral is on. Its best to do its branding activity but I would proudly say that from the month of April already it's in public domain that we have the new brand ambassador joining us and is Ranveer Singh who will be our new brand ambassador for next three years from now.

And we are also proudly going to be the part of the Mumbai Indians teams this time and Kolkata Knight Riders so that is also going to be there on the first quarter that was major branding activity. And with the brand ambassador changing we will be taking a major brand initiative activity in 360 Degrees.

Our DWC pipe got a good response but due to the lower spending we have not grown in that pipe, but from this quarter we are seeing a good number of orders and growth, next year we will be seeing very, very positive growth in this product. But the other good thing is we have opened the DWC pipe in our retail, in our distribution channel for the non-government business where we have got a very good response from the market and that market segment in next two to three years will be also developing and will be equal to the market segment of our supplies for infrastructure to the government projects.

So, other things on the piping side I would be answering you during my question answer, but overall the piping business has been a very, very positive business and growth and overall has been helping us.

Everybody I would like to know about the CPVC situation for Astral the supply with anti-dumping and lot of things going around in the market. Astral in CPVC is very, very secured. We have never gone with the countries where the antidumping has been there, we have gone with multiple sources, we have gone with good suppliers. Our suppliers have been positively supporting us with the supplies been taking a rationalize way of pricing and Astral has always been positive in getting the supplies, the stock, the inventories and maintain a continued growth on CPVC and we'll have a continued supply on CPVC though anything or any situation arises due to the government legality of anti-dumping or anything is imposed. Astral sits on a very, very strong position on CPVC on supplies and pricing and to feed the market

and Astral also makes best of its product in CPVC, all our plants have CPVC, which are NSF approved. And all our products are NSF approved. Our pipes are NSF approved and our fittings also carry NSF approvals. Astral has a lot of positives about CPVC. And if you have any question again, I would answer it during my question answer on CPVC.

Adhesives, I know everyone has a great concern and questions about the adhesive, but I would like to clarify that we have kept behind whatever was to be changed, every change has been done. Last quarter did have a positive effect on growth. But as we made a structural change in the first two quarters and due to this structural change, we had some goods which we took back from our change in the distribution pattern, the distributors who were discontinued and all these did affect negative on the growth.

So, overall growth we came to, we could not grow, we just had a flat growth. But actually the structural changes put behind, that it is done, we have a new channel which actually was the secondary channel we were already connected with them. We are adding more to this channel and this channel is fully active. We are getting consistent orders, we are getting consistent growth even in this quarter, we have done very good in the first month and we should continue to do the same. But I would assure you that our margins are good, it would be always, it will be even better off in next year quarter-on-quarter and we'll be back to our EBITDA levels of 17%-18% in the adhesive and even more and the growth will be back and we would be pushing the products to the market in the right way, in the right directions and to the right customers.

The adhesive business also has verticals we have made changes in the drivers of the business, we have brought in good talents from the market. We have very good senior people who are guiding the company in the right direction, we have a very senior people in the R&D, at the plant level so many, many corrections have been done in last over one year and all these are giving us positive results because we have added many products which were not there in our stable in the white glue section, in the epoxy section, in the silicon, in the cyanoacrylates, in the hybrid, in the construction chemicals we are filling the gap. So, we have been taking lot of positive steps in seeing the business growth and we will reach to a next level and we are committed to this business. The change, which we did was a change where we were undergoing a process of understanding a business because this business was acquired and we did not create it but all these changes and all these ups and downs have brought us more closer to the business and have given us in-depth knowledge of the business which is now helping us to guide it and drive it in the right direction. And we assure you a good year next year and we assure you that, we will be riding high in all the ways in this business likes the pipe business in quarters to come.

Kenya plant is on growth it is in (+20%) growth, the cash losses are not anymore, and we have been doing good, we have added some product lines there which Astral makes here. And overall there is a positive result from the Kenya plant and we have some assets, which were unutilized. The huge land we bought to expand the plant which would be not utilized at least

for next coming three to five years and we are disposing those assets, and this will help the Kenya plant to reduce the interest burden to a huge extent. So next year the Kenya plant will see positive, not only good growth in EBITDA, but also in the bottom line in the net profit.

So overall Astral is committed to it's both the businesses and all the plants. The UK plant is stable, growing at consistent 10%, doing good. The margins are stable, the EBITDA is stable and UK will still continue to grow and the Brexit effect is going to be positive on the UK plant for growth and improvement of margins.

So Astral is committed to its overseas plants, businesses, pipes and adhesive, the businesses of adhesives and also the pipe.

One more thing to add the last thing before we move to Hiranand and then question answer is, we just got a clearance from the environmental, site clearance for our Dahej land for the Astral adhesive business, Resinova and we would be starting to put a state-of-the-art adhesive plant at Dahej in next year. And we would be making most of the chemical products which would have the long-term growth prospects as the land is big and it's a chemical zone at Dahej. And in next two years we will be completing this project to add capacities and make a state-of-the-art adhesive plant in R&D Center at Dahej.

So thank you very much for joining this call. I'll hand over the concall to our CFO – Mr. Hiranand Savlani, and then we move to the question answers. Thank you very much everyone.

**Hiranand Savlani:**

Good evening everybody. I think numbers are all with you. So, I will quickly take this to the number and then we will move to the question answer session. So the top line growth of this quarter was roughly about 6%. And the EBITDA growth of this quarter was 22.6%. On a nine month basis the top line growth is 12.5% and the EBITDA growth is 23.26%, so as communicated earlier also that now focus is that compared to top line growth the EBITDA growth should be higher. So does that same we have maintained in this quarter also, that our EBITDA growth is much, much higher than our top line growth. PAT growth is higher because of this tax effect also in the current year. So, that's why you can see that the PAT growth is 30% in this quarter on full nine months basis it is close to about 47%. As far as this volume is concerned, the volume growth in this quarter was overall volume growth was close to about 15% including Rex numbers. And if we remove this Rex effect that the volume growth to this pipe business was close to about 6.5% kind of level.

Most of the point, I think Sandeep has covered, I just wanted to highlight what are the going forward scenario for Astral in terms of piping business, Rex business and the adhesive business.

In this quarter also as usual, we have kept the working capital cycle very tight. We have reduce our receivable days in this quarter also on a consolidated basis with Rex and the piping business our number of days receivable has come down from 31 days to 26 days so we have

reduced that date. So in this tough environment also we have never ever diluted our working capital cycle, we are very, very closely monitoring the working capital cycle and we are targeting that from here on also, we will try to slightly improve but now the scope is very limited. So, our ultimate target is 20 days, so we may be close to about 20 days in the next year.

Now, coming to the growth side, the piping business is continuously giving growth you can see in this year also close to about 17% growth is there into the piping sector in nine months basis, but the only lacking part was the adhesive business of Resinova and the Rex part. Because Rex was not able to grow because this project activity is very slow and secondly, we were doing a lot of systemic correction into the company because of the acquisition, we wanted to streamline the system into that company also, we implemented SAP and everything to that company, we wanted to streamline the receivable cycles also, we have brought down the receivable cycle to below 60 days in the Rex also. This is a very, very big achievement for our company. So, the Rex was working on a very, very high receivable days. So, that we have controlled very well. And going forward also, we will see that how best way we can improve this cycle also, when again the business will start growing from here on. Because now we are seeing a good attraction into that business also. And January was very, very good I can say for the Rex also.

Now coming to the Resinova side:

Resinova, on a quarterly basis it was a 2% kind of growth and on a full year basis still it is a (-5%). So Resinova has not contributed this year to the top line, but the silver line is that, what Mr. Sandeep Engineer indicated that the legacy issues are done now. So, whatever the self-return we wanted to take from the system that is being done and from last two months from December and January, we are seeing a double-digit growth into the Resinova also, but still I am again cautioning that still we are in a correction mode in the sense that the written part is over, but new distribution onboarding is taking place because once you remove the stockiest, all the distributor will be dealing with you directly. So, right now the KYC process is on and we are fixing up the limit for each and every distributor. So, that work is going on, which may take some more time to come back to consistently a double-digit growth. So, there may be up and down but at least we are positive that this quarter also will be ending at a very, very positive note into the Resinova side also.

Another good part is that, on a gross profit margin level Resinova has increased the gross profit margin so that, 400 bps. So, like we were working on at 37, 37.5% gross margin in Resinova so right now, we are working close to about 41% gross margin. But that gross margin improvement was not converted into EBITDA mainly because of the structural correction and there was no growth or fix over it so, had continuously increasing. Because of the launch of lot of new products, we have added the new senior people in the team, we have added the junior level people also in the marketing side. So, our salary cost has shoot up, because of all this thing, it is not converted into EBITDA but we are quite confident that in the coming quarter

you will see that this 400 bps improvement in to the GP margin will definitely going to convert into the EBITDA also.

As far as the anti-dumping duty on CPVC Sandeep has already explained in detail which is going to consolidate the market, lot of small player which were disturbing the market particularly by importing the Chinese goods and all that may be the history in coming quarter. So we are of the view that the CPVC growth will be also a good growth for companies who are brand. So we will be getting benefit out of that in the coming quarters also. Orissa plant is almost working on a full fledged and hopefully we are targeting that we should be done by December. So some benefit we will see for the Orissa plant in Q4. Like, you see the Ghiloth plant coming to the North we have saved a lot of logistic costs and other overhead. So that is also helping us to improve our margin. And this Orissa plant will also help us to improve in our margin in the going forward once it will be operational at a certain level of capacity utilization.

Rooftop solar system which we communicated earlier now I think almost on the verge of completion. And you will see the benefit of that from the next year because we are targeting to complete this by 15<sup>th</sup> of March. Safely we can say my year end so, you will see the benefit of that power saving from the next year Q1 onward. Further the capacity utilization right now, we are working on a 60% capacity utilization. So, lot of space is available for the utilization. Once this Orissa will be done, I think we will be focusing to improving the capacity utilization, we are targeting to take it to 75 to 80% utilization that will help the company to improve all its ratios, including ROCs and all those things.

So, that is going to help the company in a big way, in the next year onward and the incremental CAPEX will be substantially low from the next year onward. As of today, the consolidated basis, the net debt position of the company is only 140 crore, which we are of the view that next year we will be in a position to almost pay off that thing unless and until there is something like acquisition kind of opportunity or something can come then, that is a different scenario otherwise we are of the view that by next year we will be close to about debt free company.

Now with this, I am opening up the question answer session. Thank you very much.

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

**Ritesh Shah:** First question is for Sandeep. This is on adhesive it has been like three quarters we haven't seen much of growth. You did indicate in the last quarter as well that we are getting new management in place, we have done away with the stockiest, I do understand the return sales phenomena is behind, but what worries me is when we say that it will take time for us to reach in double-digit growth rates. So, wanted to have a view here and secondly, we have had a lot

of new people at the senior level. How does the management structure look like. So, earlier we had the same distributors who are looking at multiple chemistries. So, now do we have new management which is responsible for each chemistry and region. How is that place from a management perspective?

**Sandeep Engineer:**

See Ritesh, the first question is here, the growth in double-digit will be seen from next year first Q1. We don't want to push and do sales we are equally with addition we are equally trying. We are not trying; we are maintaining our cash cycles. We are adding distribution, addition is going on, it's almost complete I can say but distribution addition is never complete in any business even in pipes we are distributors, we have been adding everywhere. And we have a target also in pipes that we should add so many new distributors and cover the regions every year, more and more regions. So here the channel settlement for the chain is almost, it's done. It is on also and it is showing good results. We have been getting very positive results because we are now monitoring the secondary sales by ourselves. And we are trying, we are always selling the product to the distribution channel. It's a channel which is facilitating the sales to the secondary dealers and users and we are only selling products to them not to overburden them with stocks which goes to the actually user and the market. So that is setting up well and is doing well. I'm assuring you that double-digit growth will be back soon and with a good numbers. We have hired a senior higher levels and we have separated every chemistry both in the verticals of sales and also in the distribution channel. Formerly the same distribution channel was doing good also, construction chemicals also, maintenance also. Now the maintenance distributors are doing maintenance, the construction chemicals we have new distributors and for the wood we have complete new channel and this is working very well. This is setting up and all the heads who work for each channel are separate. And this is actually the org chart for us, has been very, very nice devised now. The way things work for marketing, the way things work on trails, and the way things work on credit control, supplies, logistics, the polls, everything. So, the channel, the work systems, the management, the people at the top, people at the right bottom of the pyramid are all set and are all knowing what they will have to do, what they should do and how they should do and how they should reach to the market and how they should sell. And it is giving a very, very positive result in growth and margins. And I assure you that we will be back on a very good growth and we would be like on a racing track where we have gone behind. But we'll cover up, our car will cover up the distance and will be higher in the next year on this front.

**Hiranand Savlani:**

Further Ritesh, what Sandeep had said I can add you that any business when they do the structural correction it cannot be defined that it will be done in six months or nine months, it happen that one quarter plus, minus can also happen. I remember when we acquired the Resinova the entire street, entire investor were very disappointed with the acquisition. The moment we deliver the one quarter the entire mindset of the community changed. So it happens that sometime when you are doing a structural correction it takes some time also, and structural correction as always painful. It's not a easy thing and that is the reason we always caution the investor community well in advance that we are going to do all this correction

which will take some time because of that some number will be affected. So we are always transferring to communicate the industry well in advance and it's not that we are not working. We are working very hard on that side, but it's a question of time, in my initial remark I already communicated with this structural correction 400 bps of GP improvement which is not a small thing in the industry. And you see, compare the number of the peers or leaders in the industry of adhesive. Everybody is struggling for the growth in this environment. Under that also, if we have maintain our EBITDA, we have maintain our top line itself at the internal level we feel that we have done a good job. So it will take some more time but yes, we are quite confident your concern is also a valid concern that yes, adhesive should grow faster rate. But yes, it's a question of time only. Now we are almost at the last stage, hopefully in the coming quarter you will see a positive response.

**Sandeep Engineer:** I would only last to add some up here that, my 70 to 80% time was in this business and the pipe businesses now handled mainly by Kairav, my elder son and only strategic decisions I enter. I am in and out in adhesive, and I'm enjoying it with my younger son Saumya who is also handling the thing. And I assure you that what I've seen and I've got into the deeper because after acquisition due to the changes in Astral in the CPVC product lines, I was very busy two years in getting stabilized the new CPVC product line CPVC Pro, but everything is doing great there, I'm mentoring, I am in pipe business for the key decision but I am in and out in adhesive you ask any nook and corner what is going now I'm aware of it. And when I'm aware of it, I would tell you that I know how to deliver the results and I will be delivering it very soon to market and I'm sure about it. Thank you very much.

**Ritesh Shah:** Sir, my second question is, you indicated in the initial remarks that will make chemical products at Dahej land.

**Sandeep Engineer:** We are not making chemical products; we will be making adhesive products because we have a agreement that in Kanpur we have two plants Unnao and Rania and we have agreement when we acquire Resinova the Unnao plant at the seventh year we are to hand over the plant facility, the land and the building to the owner Vijay, that falls in November 2021. So Kanpur will then run only one plant Rania and Unnao facility product line will be shifted to Dahej, okay, it's clear.

**Ritesh Shah:** Sir, what is kind of CAPEX that we have over here?

**Sandeep Engineer:** We have not finalized it as soon as we finalize in this quarter work is on, we will let you know in the next concall after this Q4 ending.

**Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

**Madhav Marda:** I just wanted to understand the reason for our gross margin expansion. Because if I look at the peers including the larger peer in the industry, but we have seen a positive gross margin

expansion. So is it raw material prices declining. Or is it better pricing when we have cut the discounts that we were earlier offering on some of our product. What's driven the expansion?

**Hiranand Savlani:**

So both are contributing to that, some raw material side also we are gaining and at the same time, we are improving our realizations also. At the same time, we have done a lot of structural corrections, logistic things and all those things, that is also contributing. I don't know whether you were there in analyst meet or not, last analyst meet we were just focusing on to that side only, how we are transforming the company on the systemic approach kind of things, rather than a human dependent approach. So that is also paying us a lot. So, I think with this Orissa plant and all will be added that will be the further added to that side. And in piping industry logistic play very, very important role. So that is helping us in a big way.

**Madhav Marda:**

Got it. But sir on the adhesive side just one of the question that, if I look at the distribution side for adhesive it's a very diverse distribution channels across plumber, construction chemicals its a very, very diverse and there are players including large ones who spent years setting up this distribution networks. So how challenging, or easier you are finding it penetrating into this market because there are people who have done lot of market development activity especially on the construction chemical side for the last 10, 15 years.

**Sandeep Engineer:**

See basically, we are already a brand. We are already penetrated not from today we are 20 year in plumbing so we know plumbers. In construction chemicals, if you see our product buffet even in adhesive it is used in that four walls of the house. And in four walls of the house the brand Astral is known. So penetrating with the backup of such a strong brand, you can always see the change with other such smaller guys or the other guys and Astral, people want to join us, people want to be our distributor, people want to sell our products and we are also equally keeping good quality, we are equal in the branding activities, we're doing good servicing, our logistics are good, a lot of things couple for a brand to grow and we are doing everything for the brand to grow. We don't say that a branding activity helps, we are doing everything which helps the product to grow. So for us to find the distributor, or for us to get into the market, for us to develop the market. I feel is much, much better and much easier. And I don't say other brands cannot do it or are not doing it, but we are doing it in the right way and we are getting the results also.

**Moderator:**

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

**Saumil Mehta:**

So first question is, while we have seen because of the raw material benefits, the all-time high margins both on gross as well as EBITDA margin. From now to maybe over the next two years is this the peak of the margin and we would like to distribute more of the incremental margins and to gain more market share. How should we look at the approach between market share and profitability over here?

**Hiranand Savlani:** So I think, even last quarter also we were thinking that this will be the peak margin. In fact, in our commentary also we said these are the high margins, but market is giving opportunity. So we keep improving our margins. And again logistic things and all that is also adding to the margin side. So, it is very, very difficult to define that these are the peak margin. We are open on both side, if that opportunity will be there we can improve the margin also and if the market scenario demand where we feel that now the compromise is happening to the volumes and all this side and we have to drop the margin for 1 or 2% we are ready for that also. So, it is not that this is a peak or this is a bottom. We will act as per the market requirement and we are not at choosing only for the margin improvement but at the same time we don't want to lose our market share also. So, for maintaining our market share or improving our market share. If we have to sacrifice some margin we are always ready to sacrifice that.

**Saumil Mehta:** So basically what I was looking at especially on PVC side you have seen a lot of competition coming over the last two years between us and Supreme and some of the larger players. Margins are really very healthy but volumes aren't coming through for an industry as a whole. So, is it because of in general softness in demand or you seeing some of the smaller players looking at this profit margin have come to the industry and actually taking some market share at the bottom of the pyramid?

**Hiranand Savlani:** So, it is what, we are taking some market share from the unorganized player also at the same time lot of stress is there onto the organized side also. You see a lot of organized players are facing problem because of the quality of the balance sheet, because they are not getting funding from the bank, PSU banks are not ready to fund the smaller player. So it's a combination of both, we are taking some share from the unorganized side also and at the same time organized players also. And also continuously we are increasing our product basket. Secondly, we are continuously decentralizing our business we started our journey with west then we entered it to South, then last year we enter with the plant in North. Now we are entering into East so that is also helping. So it is not a one thing which is driving the boat. It's a combination of all and you see that even if economy is not that growing that pace and market I also particularly the construction side slow but still we are growing, in nine month you see our numbers are still healthy number.

**Saumil Mehta:** Sure. Sir my last question is on distribution of adhesive. In terms of retail touch points where we would be and over the next two to three years what is the kind of growth we can envisage?

**Sandeep Engineer:** Can I give this picture clearly in my next concall after Q4, analyst meet. Because I would be better off there. I don't want to give the lengthy pictures at present but your question is right and we are exactly working on this and we will be giving you a very detailed presentation on this in the next Q4 results. And it will be a very clear picture for you. But we are doing all these things very positively.

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

- Praveen Sahay:** Is it possible to give Rex sales numbers?
- Hiranand Savlani:** I think now it is merge so we are not sharing the number of individual products.
- Praveen Sahay:** Okay, and as you said that 6.5% in the standalone volume growth. So we had seen a good double-digit growth in the Rex volume?
- Hiranand Savlani:** No, Rex got de-growth in nine months.
- Sandeep Engineer:** I told in the opening remarks that says actually de-growth. So that tonnage our CVC CPVC tonnage growth has been taken over by the Rex de-growth. So, two things and if there is a slowdown in the infrastructure project usage and second is Rex, we had to go through a correction of the creditors, debtors cycle where we took some hits on orders, but we need to correct that. De-growth in Rex and we would be back on growth from this quarter and coming quarter.
- Praveen Sahay:** Okay. And also you had given a detailed expansion regarding a plant life. So, can you give like currently we are at a 2,21,000 metric ton. So, after completion of all the three major things like Orissa and Sangli and Hyderabad. How much the expansion the capacity extension you are expecting?
- Hiranand Savlani:** I think it will be 250,000 metric ton.
- Praveen Sahay:** Okay. And South plant at what level of utilization currently?
- Hiranand Savlani:** Which plant?
- Praveen Sahay:** South plant sir.
- Hiranand Savlani:** South at the original capacity level if you see it is close to about 82% utilization, 80.22% kind of utilization. But now in the new addition of capacity which we have done in the last quarter, it will be lower.
- Moderator:** Thank you. Our next question is from the line of Devansh Negotia from SIMPL. Please go ahead.
- Devansh Negotia:** Sir my question was predominantly related to CPVC pipe and the competition, which is coming up. When we look at the agri players, who are also showing strong scalable of CPVC pipes. So even they are showing strong scalable in terms of the pipe segment our volumes are flat, and even some of other building material player, they have been able to scale up though a very small base but a sizable business. So, if you can just elaborate on the competitive strength which will, prevent them from hurting our margin. Maybe not today, but next two, three years as in if you can just throw some light on that?

**Sandeep Engineer:** I don't understand what the question is that, our margins are not affected at all. This is lifetime high.

**Devansh Negotia:** Sir my question is not in context today, but as in today we are in a phase that the CPVP pipe the opportunity is also growing and it's a growing market. So maybe not today, but maybe like after three, four years when growth moderates, do we see a margin risk over there. So the question is not related to what, of course our margins are at lifetime high right now.

**Hiranand Savlani:** Three, four years scenarios can be predicted but we need time and prediction of a three to four years scenario. See, one thing is that India is 1.3 billion people and housing is going to be there always being growing. If you go back I the history many slowdown came and every slowdown our in our concall there was a question what will you do, how will you grow, what will you do, wow will you grow. I remember seven years, eight years back also nine years the same things had been happening and still we have delivered the results because the country itself is going to grow. And you see we are not iPhones, or we are not very big technology people that every time tech, the pipe is going to be around, elbow is going to be elbow whether it was in the Mohenjo-Daro time or in the future. And the water is going to flow through that, technologies are. If you see the technologies as today, the research is our CPVC the vinyl chloride, polyethylene and these are the two polymers which the world has developed. There is nothing other going to be developed. If there are bio things coming or anything coming will be happening only in the next may be many, many years to come bio plastics. So, I don't see any issues of three, four years about anything. And especially with the strength of the brand it growing day by day, so we will be on the solid footing if we do the right thing one, if we keep our financials right two, which we also know and if we do the right expansion and even if we keep on adding technologies that's why we are seeing visions of three, four years and bringing in PAX. We are always the first one. We got Silencio, eight years back, people were laughing at that time why the Silencio, what is this, but you can see Silencio this year will be a very good market and very good numbers w deliver up in March on this. It is growing at 30, 40%. And even you see that the post antidumping on the contrary, CPVC side whatever the number of players are there in the market today, it is going to go down, not going to increase in CPVC side. We are on the contrary positive on that side.

**Sandeep Engineer:** As Astral I am very happy with this correction, because now I will be piping the right people because I was paying the right price, I was making the right product, I was taking the right price. Now the other brands, I don't want to name the brands who are selling 15%, 18%, 19% lower than me which are bigger brands and names and you know all these brands. So they will get material costlier than Astral, so they will have to come to my level, they will have to come to near to my level to maintain their margins, maintain their profit, maintain their growths and if they don't, if they come to my level, I'm sure that I would have a preference above them. Because, I have delivered the best product I'm making the best product. And I'm a better brand in any context. So I'm happy that the rationality of pricing is going to help Astral for its future and for its growth and for its stability and for its margin in years to come. It's a very good initiative, to get all the pricing at one level of the raw material which is going to happen

actually. We being with the others will have a little edge of benefit, then the others who have not been working only on China or Korea. So it's a better move for us Astral if you do the right analysis of numbers. As a businessman, I'm very happy about it.

**Devansh Negotia:** Okay. And just a follow up on that, the backward integration in terms of the compounding that we started producing ourselves. How much delta on margins did that give to us?

**Hiranand Savlani:** We don't share individual number how much delta is generated by compounding and how much is the final product. But you can see from the number it will definitely help you.

**Sandeep Engineer:** Basically, it is obvious if you go backward and backward you always get benefited. And secondly, you are in control of your product, thirdly you are making the right product, you have control of your raw materials supplies. You can even source the right raw material and save on that. So, it is always going to be beneficial in many ways for us.

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

**Maulik Patel:** Sandeep just if you can give update on this anti-dumping duty on six months has past what's the status now?

**Sandeep Engineer:** It is almost finalized, the order should be through anytime. And they have maintained the same duty which was provisional. One the government these Commerce Department, gets the thing it goes through the finance and it becomes an order in the state. So it's a process which is, it should be through but in this process also people have to pay the same duty which his there.

**Hiranand Savlani:** Even people are paying the provisional duty with the expectation that some reversal will take place but there is not going to be reversal. So, whatever the provisional duty paid, it will be treated as a final duty.

**Sandeep Engineer:** Because the order was very clear, if the final duty would be lower than the provisional then only it would be refunded but the final and the provisional are the same actually.

**Maulik Patel:** Okay. And this will be applicable for now three years?

**Sandeep Engineer:** Normally it takes three years but it depend on the government to take the final call.

**Maulik Patel:** Okay, I got it. Second question is on the CAPEX side, what kind of CAPEX we have done so far what we envisage in this remaining quarter and what's the CAPEX for the next year?

**Sandeep Engineer:** So like in nine months, we are close to about 140 crore or so. And next year we are projecting somewhere around between 75 kind of level to maybe 100 crore. Because now we are working on some backward integration into this adhesive also, with this Dahej facility. So we are

working actually for this adhesive side. But roughly it will be somewhere around 75 maybe on a upper side 100 crore.

**Hiranand Savlani:** But adhesive in Dahej also we have 1.5 year, we almost 1.5 years so we will be moving one by one chemistry. And adhesive does not take a huge CAPEX. We will be looking it in the right way, we would not be going and making a 200, 300 crores world class like a bombshell facility we are very cautious about moving ahead investment. And we would see that it is done in the right way matching up with the margins of the adhesive business and the growth both. You will not be doing any activity blindfolded.

**Maulik Patel:** Okay. And this year this CAPEX would be what, 160, 170 because 140 you did for the nine months right?

**Hiranand Savlani:** So it won't be much in the last one and a half. Maybe balanced, maybe around 5, 10, maybe 15, 20 crore maximum.

**Moderator:** Thank you. Our question is from line of Sonali Salgaonkar from Jeffries India. Please go ahead.

**Sonali Salgaonkar:** Sir my first question is, could you give us an update on the demand situation on the ground that you have seen over January and up in mid of February?

**Hiranand Savlani:** So, like if you consider the pipe segment, last three months consistently demand is very good I can say. October was the worst we have never ever seen in our history. It was close to about minus 22%. But from November, December and January, January was extraordinary. I have in fact communicated in my TV interview today also that we have done 24% in volume in pipe. Which is extraordinary number but don't consider that as a benchmark for the quarter. Because it's a bumpy ride, right now in the system so that cannot be considered the full quarter we are going to deliver 20%, 25% kind of volume. But with this encouraging number it looks that the double-digit number in the last quarter should not be at all a problem. Now coming to the adhesive side of the business, I think, till November this structural correction was happening, so because of that the growth was not bad. But from December, it was a double-digit growth. January, again it's a double-digit growth. But again, I'm repeating that in adhesive also new distributor onboarding is taking place. So, it will take some more time to complete this onboarding exercise. So there may be a little slower growth in Q4 for adhesive but Q1 onwards the adhesive should also deliver a good number. And it depends if the February and March will be good, even adhesive also we can deliver a double-digit growth. Keep figures crossed, so I'm not giving any positive or negative side but at least I can say this quarter beginning is robust, I can say like that.

**Sonali Salgaonkar:** Sure sir. And which sectors are contributing to your 24% growth in pipes in January?

- Hiranand Savlani:** It's across plumbing, even conduit, even column, even agriculture, CPVC the highest so all are contributing actually. Without that 24% kind of volume is not possible.
- Sonali Salgaonkar:** Sure. Sir and my last question is, you have mentioned that you have a new brand ambassador on board. So how should we look at ad spend to net sales going forward?
- Hiranand Savlani:** No, it will be in the same line, we won't be doing any blasting any ad spend we have always been in-line over ad spend.
- Sonali Salgaonkar:** Sure. And sir last question if I may squeeze in. Sir an update on the government projects and the industry opportunity particularly?
- Hiranand Savlani:** Government projects are only for our infrastructure business and we are very, we don't do direct projects, we only go through the government contract agencies like big contractors and the smaller. And I think we are getting a good positive response from January and we have been, we'll be doing good for that also in this quarter and coming year also.
- Sandeep Engineer:** Now we are getting same in even Andhra and all are getting opened again. So hopefully that will happen. So we have a lot of pending orders over there also. So then it will quickly pick up the Rex volumes also. So keep fingers crossed that things will be better and now is the government start dispersing the money and all this thing to the contractor. So hopefully from April onwards the new year will begin so lot of new avenues will open for government also to raise the money and all those things. So then it should start picking up.
- Moderator:** Thank you. We'll take our next question from the line of Girish Chaudhary from Spark Capital. Please go ahead.
- Girish Chaudhary:** My question is on adhesive business. So, in your initial remarks, you had mentioned about a 400 basis points increase in gross margin, so just wanted to know what is driving this, is it structural, or is it to do with lower commodity prices. So just want to take a view on the sustainability of the same?
- Sandeep Engineer:** So it's contributing both the chemical prices are also low and at the same time, whatever this correction you're done, because now the stockiest margin is going away from the system, some portion we will pass on to the market and some to retail with us. So because of that, you are seeing that there is a 400 bps improvement into the gross margin.
- Girish Chaudhary:** Okay. So the commodity prices sustaining any view on that, for us to take a call on?
- Sandeep Engineer:** For us it will be there because we are not much into the white glue and all this side our volumes are not that high so that's why, the prices are very low. But other than that epoxy and all that side it's a average kind of pricing, it's not a sizable drop is also there. So it's a balance kind of, so I don't think any problem in sustaining that kind of things.

**Girish Chaudhary:** Okay. And secondly in terms of the Eastern market, I would like to know how much of the business today comes from the Eastern region and post the commissioning of the Orissa plant how much savings can come from servicing those market?

**Sandeep Engineer:** I think our share in Eastern market is not that high. But once the plant will be there, it will improve sizably because the logistic cost from Ahmedabad to East, it depends on the product to product but it vary between 7, 8% to 15%, kind of zone. So definitely if you pass on that kind of things to the market. You are going to definitely gain the market share in that region. But how much saving will be there, how much market share gain will be there, once the plant will be operational we will keep dialoguing every quarterly with you guys and we'll keep updating you. It's premature to communicate at this stage.

**Girish Chaudhary:** Okay, but if you could help us with the Eastern share in the current revenue pipe?

**Sandeep Engineer:** We don't share all this geographical number, but I can say that there is a huge potential to grow the market share in East.

**Moderator:** Thank you. Our next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah:** Sir on the other expenses side, we've seen other expenses even in the standalone P&L that has shot up from almost 56 crore to 77 crore. So can you comment on this?

**Hiranand Savlani:** See mainly because we have provided a Rs.8 crore for the special provisioning in this quarter for our loyalty program. Actually loyalty program has just started so, actual outflow will not be there, but as per the accounting policy auditor want that you provide first and if actual outflow will not be there you can reverse in the coming quarter. But right now you have to do the provisioning. So, that's why we have to do the provisioning Rs.8 crore which is huge. According to us, it should not be even 50% of that. But, as per the accounting norms we have to provide because we already launched the program and accordingly they are calculating. They say we also know but unless and until the timeline is valid you have to provide and once the timeline is over you can just reverse it. So, that is also one of the reasons that other expenditure have shoot up in this quarter.

**Nehal Shah:** So, probably we may expect some reversal in Q4 on this?

**Hiranand Savlani:** Possible. Even anyway the Q4 you see Nehal history of the Astral Q4 is contributing 31 to 32% of the topline.

**Nehal Shah:** Right and you always get the operating leverage benefits?

**Hiranand Savlani:** Yes, and if you see the EBITDA level, the EBITDA contribution of last quarter is on a full year basis you work out then it will be roughly about 33 to 34% kind of EBITDA comes in the

last quarter. So, anyway last quarter is robust, and economy of scale also play. So, last quarter margins are always higher if you see the last five, seven year trend also. So, I think if this will be added then it will be another advantage to us.

**Nehal Shah:** Right, sir my last question is the one thing which probably. Sir, what kind of guidance are you given probably for FY21, especially in the pipe segment?

**Hiranand Savlani:** So it's too early, let me finish this. But I think this year also we communicated that we will be delivering 10 to 15% minimum volume growth and we are going into that territory, in fact better than what we guided it. So, next year also the way market is growing up and the way CPVC scenario is developing in the country, post this finalization of the anti-dumping duties and all. I think 10 to 15% volume should not be a challenge for the next year also.

**Nehal Shah:** And do you still think your bottom line growth would be better than the top line growth even in FY21?

**Hiranand Savlani:** Yes, we are still believing because I already said that lot of levers are there for the next year. Adhesive will give us better margin, Rex will give us a better margin next year, power will give us lot of saving because solar and all this rooftop benefit will be there. So overall I think lot of levers are there, so we are still expecting that next year also bottom line will be better than the top line growth.

**Moderator:** Our next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

**Hitesh Taunk:** Sir just missed that figure, you said there are 15% volume growth for the quarter three and around 6.5% volume growth for excluding Rex?

**Sandeep Engineer:** Yes.

**Hitesh Taunk:** Sir that means our CPVC PVC pipes have grown more than 15% is it the right estimate?

**Sandeep Engineer:** It cannot be more than 15 you can say but definitely it should be close to about 10% kind of level, because Rex was very, very, very much de-growth.

**Moderator:** Thank you. Our next question is from the line of Rishabh Bothra from Sharekhan. Please go ahead.

**Rishabh Bothra:** Sir just wanted to understand the pricing behavior, how this has been on Y-o-Y and Q-on-Q basis, how much de-growth it has been witnessed on Y-o-Y in pipe?

**Hiranand Savlani:** In pricing, raw material pricing?

**Rishabh Bothra:** The finished good pricing?

- Hiranand Savlani:** Finished good I think PVC was low in the previous quarter because PVC Y-on-Y was close to about 5% down so as per the market industry trend whenever there is a drop by Reliance we pass on to the market and whenever there is a rise we take from the market. So that scenario is continue, so last quarter there was a loss into the inventory. We have not quantified yet how much was there but at the same time CPVC price was a higher side. So on a net, net basis I don't think, much variation will be there because the contribution of revenue to us from the PVC and CPVC is close to about 50, 50% kind of level. So, I don't think a much change is there, but CPVC on a rising rate and PVC was on a downward rate. But beginning of this quarter PVC prices have again started moving up and it looks that it will keep going up from the, because now the seasonal month have started. So if that is the scenario that will help us to improve our margin into the PVC in the coming quarter Q4 and Q1. Because we always sit with reasonable good inventory levels and that will always give us gain into the inventory side.
- Rishabh Bothra:** Okay. Because when I was looking at the numbers on 520 crore revenue and volume of around 32,000 it was showing a negative 14% on realizations for on Y-o-Y basis. So, just wanted to cross check?
- Hiranand Savlani:** 14% drop in realization, I think that time Rex number was not included. So that might be the reason, so I think you can call me separately. I don't think 14% drop will be there. So I have to go through the number. Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir first question is for Sandeep. Sir, earlier we had indicated about tie up with ADS, sir any progress on that and secondly, you indicated that PEX will have our own production in say 12 months or so. I think you had earlier indicated that we will set up a plant only once we have adequate market in place. Sir, if you could provide some color over here would be useful.
- Sandeep Engineer:** Yes, things are still on we have not gone in deep but by after this quarter I think we will be able to give you a clear picture on this. In the analyst meet, about the next thing which was PEX. We wanted to build a volume and go but we are getting volume and the thing is that important is making the product 25 to 30% costlier. Duties and transport and all. So, I made a calculation that if I make it here I make the product straightaway which is not coming in my pocket at all and if I make it here I make it 30% cheaper and I can get a good market here for that product. We will be moving currently at this point.
- Ritesh Shah:** Okay. Sir second question is you indicated in the initial comments that there are several programs, plumber program, dealer attachment, dealer distributor, etc. Sir, what is the cost attachment over here?
- Hiranand Savlani:** That should not be cost but we have already told 8 crore provisioning. And more picture on this I think again we will give you after Q4.

**Hiranand Savlani:** I think this time we are going to highlight in our analyst meet how completely we have taken this company to the systemic approach. Last time also we highlighted some point and this time we will be giving you more lights into that thing. I think it will be difficult otherwise it will last one hour call. So, to cut short we have done a lot of work into the systemic side. Now, we will be having the accurate data of the plumber, we have accurate data of the dealer. What is lifting, what is their disposal everything will be there.

**Sandeep Engineer:** It will highlight as much as need be, rest will be proprietary, I am telling you very clearly I won't highlight everything to the market because we have competitors who are watching us on everything we do, and there are lot of proprietary information, which I don't want to discuss, and I'll keep it up to my heart. I'm very clear about it, because my certain programs, my certain initiatives are by proprietary initiatives and which are the business initiatives which are the business strategies, which cannot always be put on the table for everyone.

**Moderator:** We will take our last question from the line of Ankit Gor from Systematix Shares. Please go ahead.

**Ankit Gor:** Sir, my first question with regard to adhesive, we always maintain that on a longer term perspective, adhesive margins will remain at 15, 16%. But in the initial remark, Engineer sir said that the margin can go up to 17, 18, 19%. And what we maintain that incremental margin we will spend it over brand and brand expansion and marketing spend to spite spread the product. How are we looking, how should we look at it now sir, other side of it, on a margin side?

**Hiranand Savlani:** See what Mr. Engineer say that is what our ultimate wish list that we want to go back to that level. So, that doesn't mean that it is going to be on an immediate basis 17, 18% kind of EBITDA margin. So, slowly and gradually are target is to reach at that level. The moment volume will start picking up then it is possible to do that level. But it will need time it cannot happen on one or two quarters. So keep fingers crossed maybe few quarters down the line. That is what we are targeting even if it is a 15, 16% we are very happy as long as we are growing at a 15, 20% volume every year even if a couple of percentage lower also it is a very healthy margin. So, we are not only focusing on to the margin side that is what our wish list that we want to reach at 17, 18%. But it again depends on how the growth is coming. For us growth is first priority margin is the second priority. Like in pipe also I said that first priority will be growth, if my volume is growing at 20% I have to sacrifice 1 or 2% margin we will be okay.

**Ankit Gor:** Alright. Sir my second question with regards to if you can explain it's more about clarification if you can explain what Mr. Engineer said in the initial remarks, saying that Kanpur had two plant then probably one is given to the older promoter. And now some will be shifted to Dahej, can you please clarify that a couple of things?

- Sandeep Engineer:** I gave a complete clarity, when we acquire this there was a, at the acquisition level this was agreement that the oldest plant at Unnao the property will be handed over after seven years of operation to the original owner. And we wanted to shift this plant, we already have a land in Rania. But because we already hold this land in Dahej from 9 to 10 years, which is a chemical zone in Gujarat near Ahmedabad, we have decided to bring this production facilities to Gujarat at Dahej in Gujarat. And there will be, out of two operations in which are there in Kanpur, Rania operation will continue and continue to grow, the Unnao operation because Unnao is now almost a residential zone near the Ganga river and so there are lot of restrictions of the Ganga project already lot of housing projects are going on there. So it is also in our interest to shift to this plant to a chemical zone and to industrial zone. So, that's very clear and it was a part of the agreement. I have put this on the table very clearly.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. Would you like to add a few closing comments?
- Sandeep Engineer:** No, thank you everyone, thank you all for the support. And we will again, going to meet everyone personally after Q4 results. Thank you.
- Hiranand Savlani:** Thank you every participant, if anything is left out question. You all are free to call me anytime my mobile is 24x7 available for you. And thank you Kashyap for hosting this call.
- Sandeep Engineer:** Thank you, Kashyap and thanks everyone.
- Moderator:** Thank you, members of the management. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your line.