



“Astral Poly Technik Limited
Q2 & H1 FY2021 Earnings Conference Call”

November 06, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Astral Poly Technik Results Conference call hosted by ICICI Securities. 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 for an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nehal Shah from ICICI Securities. Thank you, and over to you!

Nehal Shah: Thank you. Good evening, everyone, and thank you for joining us on the Q2 and H1 FY2021 earnings conference call of Astral Poly Technik Limited. We have with us the management team comprising of Mr. Sandeep Engineer, Managing Director; and Mr. Hiranand Savlani, CFO of the company. We will begin the call with the opening remarks from the management, following which we will have the forum open for an interactive Q&A session. I would now hand over the floor to Mr. Sandeep Engineer for his opening remarks. Over to you, Sir!

Sandeep P Engineer: Thank you, Nehal. And thank you all of you who joined this call for the Q2 results and I hope you and your family members are safe and doing well and are healthy fighting the pandemic.

You all know that the world is passing through a tough time due to the pandemic and everyone has pass through various challenges. Under this situation I want to first congratulate and thank the entire team of Astral to support the organization in growth of the topline and without compromising the margin.

At the same time, I want to thank all my investors which has put by us and put the confidence in the management in these difficult times.

Now coming onto the business, first I will brief you on the pipe business and then I will be briefing you on adhesives business. Business was slow till August and now as you see the charts which we have given has started picking up from September onwards which you will see from the numbers as well as the growth pattern here. We will be answering more on this in our question and answer about the business there.

But first let me brief you the plant of Odisha plant. The work at Odisha plant for the construction has just commenced and the machine ordering process will start in the last quarter and we will be ready with this plant in operation in Q2 and we have seen the revenue start from this plant in Q3.



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Our value added products like the valve expansion plant, which is going on at Dholka is as per the schedule the building is under construction and it will be ready by May 2021 and the production will start in Q2 of next fiscal.

We are also doing minor expansion works, as building and various balancing the capacities at Santej, Hosur and at Ghiloth plants and all these works which were halted in the first quarter with the pandemic have commenced and are going on schedule.

We being a plumbing company, our growth started late compared to the agri pipe dominated businesses in the piping sector. We are seeing a very good growth demand and it looks that this will continue in the coming comings for our plumbing products as well as our agriculture products and the PVC products which we manufacture.

I would like to let everyone know that we are working on a few new product launches, which will be announced in next few months and we are in the last leg of launching this product and once they are ready and launch we will shortly update you and get connected with you.

Now briefing on the Resinova and the adhesive business, the business has started picking up, which you can obviously see from the numbers in the chart which we have given, and as we have continuously briefing everyone that the structural changes have been completed in the last quarter and even the quarter the last quarter of the last fiscal and more changes and consolidation of the structural changes has taken place in this two quarters and the results can be seen by you.

The further changes in the distribution network, retail changes, new schemes, initiatives, new launches for the various applicators is also happening in the adhesive business and we are getting a very positive response and a very positive outlook for this business with all these structural changes the network changes and the various applications and the connection which we have brought for the application.

We are also working for few new product launches in this category too, once we are ready with the launch we will keep you updated again by connecting with all of you and at this stage, these products are under trial stage at R&D as well as we are in connection with our U.K. plant to source out part of this technology, which they manufacture at the U.K. facilities or under their R&D facility.

U.K. is doing excellent in spite of pandemic situation in the country. Not only the demand is growing, but the margins are getting better in U.K., U.S. subsidy has also started giving positive numbers which is very encouraging for all of us and we are expecting much more improvement in the coming months.



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Besides this, Astral is continuously doing a lot of CSR activities, such as supporting wildlife in Rajasthan, MP, giving support to the flood-affected people in Bihar as well as company is also doing various activities on the nature, environment, weaker sections of the society and people who need help with the pandemic.

We have taken initiatives to take care of our employees at every plant at every location and HO by employing doctors, qualified doctors with every plant and this has helped us a lot in seeing that our employees remain healthy, safe during the pandemic. We are equally serious of our carbon footprint, and we are trying to move our organization towards the use of renewable energy in coming time. We have already put this rooftop solar at all our plant and we have just signed agreements to commence generating energy, 3 megawatt energy on the immediate base with the government power supply companies. So this energy which will be generated giving us a positive carbon footprint as well as saving us a lot in the team operation in coming few months.

So we may thank everyone for joining this call and I will pass the line to our CFO Mr. Savlani and we will be taking more on the question and answer session. Over to you!

Hiranand A. Savlani:

Good afternoon everyone. Hope everyone is safe and I wish the entire world should come out quickly from the pandemic and the announcement of vaccine happened very soon. Press release is with you, so I do not want to take much of the time to discuss each and every number instead of that we wish that I give more and more time to the Q&A session because I understand that in this difficult environment everybody is having the questions in mind to ask from the management. So I will give only few numbers and then we will quickly move to the Q&A session and I will only highlight for the whatever the things has happened in this particular quarter.

So standalone number on Y-on-Y has grown up by 4.11% in topline and the EBITDA 16.29% and the PBT 25.31%. Once again we repeatedly are communicating to all our investor community that Astral's focus is now to grow the bottomline or maybe EBITDA higher than the topline, and that is again this is repeated in this quarter also, and we will keep continuing doing that till we reach at a certain ballpark figure.

PAT was lower compared to last year in percentage term that is mainly because of the readjustment effect of tax with the government of India reduced last time from 35% to 25% the corporate tax. So because of that some write-back was there last year that is why it is showing, but otherwise you see the operational level it was a very healthy growth.

Similarly on the consolidated basis, if you see the number, the topline was grown up by 10.14% and the EBITDA 18.31% and EBITDA at a robust level of 36%. And again there



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also at a consol level the PAT was affected mainly because of the tax readjustment from 35% to 25% in the corporate tax by Indian government.

Market demand in pipe segment was robust from September onwards which you can very well see in the monthly data, that is why we were this time given the monthly data so that every investor can transparently see that the real pickup in the plumbing sector has started from September onwards, so far whatever the pickup was there, that was mainly related to the agriculture side of the business, but now the plumbing has also started giving us a reasonably good growth.

September we were up by 30% and in the month of October the lifetime high of 85%, I am again repeating the 85% growth in the month of October. Similarly we are seeing a similar trend into the adhesive side of the business. The entire quarter was stable moving somewhere around 28% - 29% growth and again from the October onwards it has started giving us a robust number and we would deliver a 55% growth which is the I can say with a highest growth in a single month in percentage term.

We are clearly saying that the migrant labor have started coming back to the system and many sites has started working and we are of the view that most of the labor force should come by post-Diwali back to the all sites, and all the site will start functioning on a regular base post-Diwali unless something abnormal happened on the pandemic side.

Otherwise I think the demand will keep picking up in the coming months and now the metro cities will start contributing. So far metros are not giving contribution and hopefully from now onwards the metro city will start giving contribution. So the demand scenario will remain healthy in the coming months.

EBIDTA margins are better compared to last year, looking to the situation it should be maintained normally margins in the pipe industry is up 15% to 16%, but in the present situation because of you can say the PVC uptrend, because of that, some gain is there into the inventory level also. Of course Astral will be having the lowest gain into the PVC side because our major revenue coming from the CPVC side, but still yes definitely some gain will be there, so that can be the one of the reason and now the CPVC demand will start picking up and still Astral is controlling on the overhead side, so because of that margins will be very, very healthy in the coming quarters also.

Adhesive EBITDA margin was better compared to last year and now looking to better growth in topline in the coming months we are expecting the margin to be maintained at this level and there is a room for improvement in the coming quarters. So we are expecting a further improvement into the EBITDA margin, into the adhesive side of the business.



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We are very positive about the adhesive business in coming months as truly and gradually our structural correction what we have done and still we are doing some corrections which is started giving us this some results but we are still waiting for few more quarter to complete all the structural correction and then after we want to see how it is going to help us.

Infra business was very slow because government products were on hold now it has started picking up particularly from the month of October we are seeing at least a growth in the adhesive business so first time in the last seven months October was the double-digit growth in the infra business, but so far it was not giving us a good number, but from October onwards again it has started giving us the growth margins are stable somewhere around 15% kind of level so we are of the view that we will be able to maintain these kind of margin and there can be a room for further improvement from here on.

Cash position had substantially improved in Q2, as on 30th September we have an Rs.260 Crores of cash on books and we are very seriously looking into this number. So as Sandeep Bhai said that we are already working on few new products and hopefully within a quarter time once this we will be ready to launch we will be updating you the new product launch also, and at the same time we are improving the dividend payout also and hopefully by year end we will be working on the dividend payout policies also because now there will be a robust free cash flow available with the management. So definitely we have to improve the payout ratio also, but exactly, we board will decide by year end and then we will be keeping communicating to you.

In the first half the Capex was only Rs.37 Crores. As usual we always communicate that Astral is very, very serious about the quality of the balance sheet and which is reflected in this number also that even in spite of the pandemic situation we have improved our working capital management or the balance sheet quality whether it is the reduction of debt, whether this improvement into the cash level, whether it is a receivable side, whether it is a inventory side. All front, we have done the improvement, I can give a few of the number that you can see that the cash level was substantially improved to 260 Crores level.

Receivable last year September balance sheet you can see was Rs.275 Crores which had drastically dropped to Rs.211 Crores in this September in spite of 10% Y-on-Y growth on a consolidated basis. So you can understand the times of drop taken place in the receivable days.

Similarly in the inventory side last year September it was Rs.485 Crores inventory which has come down to Rs.441 Crores in spite of increase of 10% in topline and in spite of increase in substantial price hike into PVC, in spite of that we are able to reduce our



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inventory level. So that is a clear signal that we are very, very serious about the quality of the balance sheet and the working capital cycle.

Payable days have reduced from 407 Crores to 371 Crores mainly because this quarter the currency was in our favor rupee appreciated and we were sitting on a happy cash. So we utilize that cash to pay out our foreign currency risk payables. So to take the advantage of foreign currency gain because we were sitting on the cash so because of that the payable days has come down otherwise payable we could have extended that also but we thought that the currency gain was sizable so because of that we do not wanted to take a risk from the currency because we are not expert into the currency side and we were very much in the money so we thought that better to encash that gain and which can be seen very well into the Q2 number we have gained Rs.3.9 Crores into the foreign currency in the previous quarter.

Now with this I want to close my initial remarks and again go back to the moderator for to open the floor for the question and answer session. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nitin Jain from SK Capital. Please go ahead.

Nitin Jain: My question is regarding the pipe business. So some of your competitors they have shown stronger volume growth in the pipe business. So would you like to comment on that like their growth is upwards of 10%. Yes, that is my first question sir. Thank you.

Hiranand A. Savlani: Can you please give us the name of company which had given the 10% volume growth.

Nitin Jain: Sir APL Apollo Pipes.

Hiranand A. Savlani: So they are basically into the agriculture business rest if you see the plumbing pipe company, no company has given the double-digit growth. So I think market situation was not that great but now definitely from September onwards the growth has started coming back to the system, which you can see very well into the numbers also that in the September and October numbers are in front of you I am sure you must have seen that number so industry per se if the demand will come then definitely everybody is going to grow so we cannot claim that only Astral will grow every company will grow because the industry per se is going to grow so we are of the view that if the plumbing demand will start picking up then every company will grow and it is always good that in industry every organized players are growing that is always a healthy thing rather than unorganized people grow so we always welcome that any company is growing that is always a good thing for the industry per se and definitely for a leader like Astral it is always better that if the other



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people are going to grow then we are also definitely going to grow so we are very positive on that side and anybody in the industry is going to grow in the plumbing side we will be happy.

Sandeep P Engineer: Even, I was add a thing that we always welcome our double-digit growth and we are happy about their growth, but you have to also see the size in the peer why you do get the growth of the number because the size and the volumes do matter in the percentage when you just go through the numbers. Thank you very much.

Nitin Jain: Sir my second question is on the Odisha plant so in the previous quarter you had mentioned that production is expected to start by Q1 so now the press release is saying it will start by Q2 so have there been any delays or like would you like to update. Thank you.

Hiranand A. Savlani: Yes it is delayed because of the pandemic situation, the construction activity was not possible to do that, because the Odisha government was not giving the permission so now they have started giving the permission that is why now we are going very fast there is possible we can finish early also but we want to be playing safe that is why we are saying that. But quite possible that if nothing will go wrong in the coming day we can finish early also.

Nitin Jain: Thank you sir that is all from my side.

Moderator: Thank you very much. Next question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Sir my question was if we see the October revenue growth that we have for plastic pipes which is very strong, how much in this would be volume versus price growth because I am not able to understand 85% how do we break that one.

Hiranand A. Savlani: So like volume will be roughly about 15% lower than the price.

Madhav Marda: And sir what is driving the such a strong volume growth as basically plumbing end market is opening up is it like how should we sort of digest this number.

Sandeep P Engineer: Yes, two things are there one is end market is opening up, and second is that the develop likely come from companies like Astral, we are having proper inventory all the products regime and that is also helping us and our network also is being more focused in a lot of ways which is also helping us so there are many factors which has helps us and we are continuously working to improve this better.



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- Madhav Marda:** And maybe on this new product launches that we are talking about in pipes and adhesives. Could you just help us understand the nature of the product especially in plastic pipes like valves this one product for example which we are doing, but what kind of product will there be any broad idea.
- Hiranand A. Savlani:** So in both category we are going to launch the new product so we are at the last leg so hopefully next quarter we will do the announcement because we do not want to unnecessary do the announcement early without launching that thing so once we will be launching we will be doing the announcement.
- Madhav Marda:** Okay great sir thank you so much for the answer.
- Moderator:** Thank you. Next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.
- Sonali Salgaonkar:** Sir my question is again towards our October growth in pipes of 85% and adhesives at 55%. Sir is there anything in the base of October 2019 which is led to this kind of strong growth especially in pipes.
- Hiranand A. Savlani:** So some maybe the base effect will also be there but last year all this pandemic and all started from March so that kind of growth will not be there but of course the growth base will be compared to the normal it would low. So even last quarter, month, year October also we were growing, so it is not that low base also.
- Sonali Salgaonkar:** Sir and about November or say December you expect similar growth rates to sustain or probably to revert to steady state.
- Hiranand A. Savlani:** No, this cannot be 85% kind of growth, cannot be sustained in every month, so we have to see how much it is going to sustain but yes it is still on the higher territory so but we cannot expect that you guys is pickup the one month end multiply by 12 or multiply by 3 for the quarter, not going to be like that.
- Sonali Salgaonkar:** So sir we are just trying to understand probably is what different have we done in October that has led to this kind of growth is it because of the pent-up demand which probably did not unleash because of see lockdown in the earlier months.
- Hiranand A. Savlani:** Yes definitely some element of pent-up demand will be there because many new cities, new states have open up so naturally demand will be there see our product are such is that you can postponed you cannot cancel the demand, whether it is a repairing replacement demand or whether it is a new construction demand you can postponed that thing but you cannot cancel so when there is a opportunity and things get opened the pent up demand will always



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be there so there can be some element of pent up demand and secondly metros and all were closed so because of that, that demand was missing so now they have started coming back to the system so they are also going to contribute so all the backlogs are going to be get cleared how many months it will continue very difficult to define at this stage but definitely some period it will be there because ultimately everyone has to close the backlog.

Sonali Salgaonkar: Sir and in our overall portfolio how much is contributed by a) agri pipes and secondly infra verticals.

Hiranand A. Savlani: We do not share individual products number but it is very, very low agri percentage wise it is very low and infra again as compared to the console number it is very low.

Sonali Salgaonkar: Sir and lastly any color on our rural versus urban mix and also the Capex for the year.

Hiranand A. Savlani: I think rural is still contributing good and now onwards we are expecting that the urban should start contributing to us and as far as this Capex is concerned I think we will be able to give you the exact number in the next quarter because we are working on a few new products line also so there also some Capex we have to give so originally our plan was that to somewhere around Rs.70 to Rs.80 Crores, but now it can extend little bit.

Sonali Salgaonkar: Thank you sir.

Moderator: Thank you. Next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.

Sneha Talreja: Congratulations on very good set of numbers. Sir my question was pertaining to your adhesive segment likewise you explained it for 185% sort of a number for pipes. What could be the number for adhesives 155% is it something which is because of the structural changes that we have done in the past or there is some element of the markets opening up or the pent-up demand coming back what would you attributed to the most.

Sandeep P Engineer: I would attribute it to the structural demand and the systems and lot of initiatives which we have taken in getting the business back on track and we are not doing anything which is like pent up demand to push the products to the market, and we are actually working this business in a very, very control credit now very control inventory cycles and in a very perfect manner with the expansion of network happening and the work which initiative is taken at all levels involvement of all of us in this business and we had continuously promised that we are taking it back on track both in growth and the margins also and we are all working towards it and I can say that this demand is from the hard work, so it is not from any other.



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- Sneha Talreja:** Sir here we can continue with the strong growth trajectory maybe not 55% but at least since last three months we have been doing at least upwards of 25% so that can be still continued over the period that is the right assumption sir.
- Hiranand A. Savlani:** It is doable but again subject to the situation of the pandemic on the ground otherwise we think 20%, 25% is doable.
- Sneha Talreja:** Sir my second question was relating to distribution network both in your pipes business and adhesives business any significant distribution addition that we have done on this particular quarter or maybe last two quarter which is leading to some amount of high growth and the reason I am asking is there are lot of smaller players are getting out of the market so I am sure that you must be adding more and more distributors at this particular point so if at all we can get some color on that.
- Hiranand A. Savlani:** Yes that is the regular exercise we keep adding the new distributor we keep adding the new dealer in both the segment whether it is a pipe or adhesive. So that phenomena will be continue for the next 10 years because every year we are going to add because our base is very low so on a lower base there is still lot to do we have to do still lot hard work because it is not that end of the journey or it is not a saturation point where we have reached . I can say it is just a beginning of the journey look at the size of the businesses in both segment and again there what is the market share of Astral it is hardly anything. So we are seeing a lot of opportunity in the market and that is why I am repeatedly saying that this is the beginning of the journey and next ten year we will keep adding the new dealers, new distributors in both the segment.
- Sneha Talreja:** Got it sir. Sir thanks a lot and all the very best I will come back in the queue.
- Moderator:** Thank you. Next question is from the line of Dushyant Mishra from SageOne investments. Please go ahead.
- Dushyant Mishra:** I just wanted to understand what are some challenges you are facing new expansion in the agri market. Kind of wanted to get a sense of, for company like Astral with the size and scale that we are and the kind of footprint we have established, there are some of the challenges that we face and expansion in to the rural especially agri market with PVC pipes.
- Hiranand A. Savlani:** So agri market is good definitely and opportunity is also very high into the agri segment but Astral being a plumbing company and within plumbing also we are focused on the CPVC side. So our focus towards the agriculture side will be always low we will never be going to give the priority to the agri sector for our company but yes definitely we cannot say that we are not interested into that business we are doing that business also but our focus will



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remain into the plumbing side but yes opportunities are very high into the agri side of the business also for Astral.

Sandeep P. Engineer : And we are also focusing on the growth in that business adding completing the product line now we are almost having the same product line but our priority in agri is to sell at a better price realization and which is happening and at the same time we are also bringing growth in that business.

Dushyant Mishra: And have you seen reluctance in some of our wholesalers and people like that has there been the case which is now...

Hiranand A. Savlani: Sir your voice is not clear sir can you speak little loudly.

Dushyant Mishra: I was just asking if you are seeing reluctant in taking on that in some of your large distributors.

Sandeep P Engineer: We cannot understand your question.

Hiranand A. Savlani: Sir what large distributor

Dushyant Mishra: No, I was just asking if you see reluctance in your large distributors in taking on more debt.

Hiranand A. Savlani: No, if you see the market condition in this pandemic every channel partner had reduced the receivable days whether it is a dealer, whether it is a distributor, whether it is a company like Astral. So everyone has reduced the working capital cycle because nobody want to take a risk in this market.

Dushyant Mishra: What I want to know you have seen in your large distributor in the company.

Hiranand A. Savlani : Exactly so I do not think distributor is required to take the extra debt in this market anyway volumes are compared to last year it is normally Astral is known for growth for 15% kind of run rate so we are still not reach at the 15% kind of run rate. So I do not think any distributor has to borrow much because anyway he has also reduced the working capital cycle so it is a good for the industry per se.

Dushyant Mishra: That is all from my side. Thank you.

Moderator: Thank you. Next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Sir I just missed out on the volume growth number for pipes that you gave earlier can you just repeat that for me in October.



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Hiranand A. Savlani: Volume growth exact number I do not have handy but it was I think as compared to like value it was 85% then the volume should be somewhere around 68% or 70%.

Kunal Lakhan: Okay 68%, 70% higher.

Sandeep P Engineer: Yes.

Kunal Lakhan: That is very interesting because like you said that, and you mentioned earlier that you do not expect that to sustain but the fact that you also mentioned that the metro demand is kind of picking up was that so far being more driven by rural. So how do you see this I mean this going head like I understand 68% sorry something that cannot be sustain, but in the mid to long run right say next 12 months where do you see this settling down.

Hiranand A. Savlani: See for our side we always say that the 10% to 15% kind of volume growth is easily doable. beyond 15% demand on the market condition if the market conditions are good we can grow even higher we can grow even 20% also 25% also which you can see now also that in last two months we are growing very fast so we have the capacity we have all the facilities with us so we can grow any level of number because we are still if you see the utilization is hardly 60% so we have a enough space to grow but it depend on the market condition if the market condition will be good we can grow higher also few months, the market will be good only because everything was stopped so now everything is getting open up so naturally we will cover up whatever the loss we have incurred in the Q1 and Q2 level. Well I already explained that this kind of products demand will never die it will only postponed so sooner or later it will be covered up whether it is going to covered up in Q3, Q4, or next year Q1 it is very difficult to answer in this market but definitely ultimately it is going to be cover up somewhere.

Kunal Lakhan: And my second question is on the adhesive side, we are seeing some recovery there and the fruits of our on structuring happening now where you see your market share going in the next three to five years.

Hiranand A. Savlani: Can you repeat the question.

Kunal Lakhan: Where do you see your market share going in the adhesive segment in the next three, to five years?

Hiranand A. Savlani: Market share is hardly anything we have not taken any market share because you see the size of the India it should be roughly about 15000 Crores against the 15000 Crores what is the size of adhesive of astral in Indian market what the number you are seeing that is the inclusive of the U.K. market also so hardly any market share we have grown up so maybe 3% it is nothing so there is still lot hard work is required to gain the market share and I



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think astral thing is committed for that and we will continuously doing hard work to gain the market share.

Kunal Lakhan: Do we have some internal vision in terms of guys you want to be in terms of market share in the next say five years out.

Hiranand A. Savlani: I think our MD never put pressure on this kind of number game but I think let Sandeep Bhai to answer this question.

Sandeep P Engineer: See actually I say that we for us to comment on getting a market share is too premature at this level. But for us to comment upon how, what number we should be reach in three years is very feasible to talk, and our vision would be in three years to reach say 4 digit plus number that is what we is the vision at present once we cross that 4 digit plus number we would be able to quantity and talk about the market share. Now in adhesive again to go into more detail the market share is fragmented some companies have very strong presence in the wood. Their wood market share maybe more, some companies have a very strong presence in maintenance that is an epoxy and acrylic. So that market share would be different, and in the solvent cement in the pipe joining also is in maintenance, and some companies have a very strong presence in the construction part of the business so market share would be different for different companies in totality it may be different but in adhesive you have to go with the each division because each division product is move for different application and different segments different users so to gain a market share you should focus on certain chemistries more and also add to the new chemistry and get more deeper into those markets and that is how we have to work out this.

Kunal Lakhan: Sure, that is very helpful sir. Thank you and a very happy Diwali and Happy New Year.

Moderator: Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: My question was with respect to the cost savings, how do we look at the cost savings at the standalone company in terms of the A&P and the other overheads for the second quarter and going forward.

Hiranand A. Savlani: So like whatever cost saving was there in Q1 it is not the same level cost saving in Q2 because now the market is opening up and secondly branding is such a thing that we have to keep continuously doing to keep the brand in the eyes of everyone. So which you can see very well in IPL I am sure anybody who have worked the IPL they must be remembering Astral very well every match of the IPL Astral is there. So that kind of activity we have to keep continue, yes definitely lot of administrative cost, lot of traveling cost these kind of cost has reduced substantially and even branding also if you I see the budget of last six



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month and this six month it is till at very low compared to the last year. so there is a cost saving and going forward also we are expecting that at least another couple of quarter this saving they should continue and then after next year we will decide what to do based on our profitability how the market is shaping out if we keeping growing at a faster run rate we keep allocating some budget to the branding activities and all these things but it's all subject to the growth and subject to the profitability of the company.

Achal Lohade: And like we have seen in lot of other companies across industries that the salaries have been reinstated so I was just was curious in terms of the salary cost where are we have we taken any cut in the past and have those been reinstated.

Sandeep P Engineer: We have not given any cut in the past, we have given salaries to everyone and we have not done any reduction.

Hiranand A. Savlani: So Astral has not reduce a single penny of any of the staffs so we are very happy that management was so generous with all the team member that they were not reduced a single penny of any of the staff across the category.

Sandeep P Engineer: And we have that every staffs with an additional medical benefit of COVID if their family is covered and we also employees health officers at every location and even our Astral has health officer with complete knowledge of testing and helping every person for any eventualities is come down.

Achal Lohade: That is really wonderful, my second question was with respect to inventory gain for the PVC business would you be able to quantify sir is it in single digit, double digit.

Hiranand A. Savlani: No, it will not be that high the reason being that, that we our source majority of the sourcing at local so we do not have a too mature inventory of PVC all the time with us, but yes of course so much of rise is there, so some benefit should have been incurred to the company also, but it is very difficult to quantify and majority of the material we are buying from the Reliance so very, very low raw material level inventory with us. So like other players who are importing them raw, they might be having a sizable gain, but Astral is not having that kind of gain also.

Achal Lohade: And in terms of the industry for the first half for the pipes business what would have been the industrial decline I know it is hard to say but still this thought of checking our perspective on that.

Hiranand A. Savlani: Very difficult to quantify that number because there is no authenticated number available but our gut feeling say it should be somewhere between 20% to 25%.



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Achal Lohade: And just last question if I may with respect to the mix for the pipes business in terms of the geography so like I would imagine that western be north business could be reasonably stronger mix for pipes for us so if you could help us in terms of the mix and number two how the different market has done in the second quarter relatively.

Hiranand A. Savlani: So we do not share the number of geographies we restrict that kind of number game but yes we can say that across the board now across all the geographies are giving the growth. So it is not restricted to only one particular segment which is giving or one particular to kind of geography which is giving growth. Now everywhere the growth is coming so now it looks that the market is really opening up. So it is a very good and encouraging things for the industry per se and Astral.

Achal Lohade: And just last question if I may sir with respect to PVC prices I mean we have heard from players that the PVC prices are probably not sustainable at the current level just thought I will check your perspective on PVC pricing.

Sandeep P Engineer: It is not like that it is not acceptable or not receivable. It has gone up exorbitantly high. But this continues, also come back to business and work after break. Construction activities are moving and are moving as everyone knows the markets have opened up for the housing sectors also so I think the demand would not be falling even if the pricing are at these levels. So people have accepted because people want to move ahead rather than just keep waiting for the price to go.

Hiranand A. Savlani: So if you see the long-term average, long-term average of PVC yes definitely it is high but that does not mean that market is not accepting market is very well accepting this price also and looking to the short supply in the system versus the demand it looks that prices will keep continue at this level for maybe few months I do not know how long it will continue but market is accepting this price so that is the best part of the market that market normally people feel that with this so much of price people will not accept that price right but market is accepting that, so that is a good thing, we are of the view that this scenario will continue for few months after that how the demand scenario and the supply scenario is spanning out at the global level that will decide the future course of action for price, but as of today the demand is high and the supply is short so because of that this scenario will continue.

Achal Lohade: And we have passed on all the price increases in the raw material front PVC price increase.

Hiranand A. Savlani: Yes, we have passed on, we are the first company to pass on the price rise in the market.

Achal Lohade: This is really helpful sir thank you, all the best.



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- Moderator:** Thank you. Next question is from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.
- Ritesh Badjatya:** So sir I have only one question given in this time period the smaller players is finding very difficult to operate and does this give us the opportunity to reduce our SKUs in the market and that is what reflected in a lower inventory which despite 10% year-on-year growth.
- Hiranand A. Savlani:** No, we do not believe in that theory to reduce the SKU on the contrary we are increasing the SKUs. We are not only focus on the reduction of inventory that is not the only criteria we have to grow the market, we have to grow the market share in that kind of scenario we cannot reduce our SKU or more a sake of reducing inventory we sacrifice our businesses that will never happen.
- Ritesh Badjatya:** No, so my question is just because of what we have observed in the market as of now whoever going to the market they are just going for buying the product rather than just keeping on inquiry so that is the somehow is probably giving us the comfort to reduce the SKUs for some time period. That is why I had asked. Okay.
- Hiranand A. Savlani:** No, we have a enough inventory available with us we have a enough SKUs available on the contrary we are adding few molds for adding the new as Sandeep bhai said that we are adding many such other products also so I do not think that is the thought process within Astral.
- Ritesh Badjatya:** Sure sir, that is all sir thanks so much.
- Moderator:** Thank you. The next question is from the line of Kshitij Kaji from Carnelian Capital. Please go ahead.
- Kshitij Kaji:** My first question is on the adhesive side. So already in this quarter we have seen a sizable pickup and improvement compared to the other quarters, but just at the industry levels have we seen that Pidilite has acquired our competitor Huntsman, in a deal that this is concluded so just want to know your thoughts that will this increase our competitive intensity or will this helped improve and make the market share is much more bigger and benefit us also going forward.
- Sandeep P Engineer:** See one thing is that we are already competing with ARALDITE for many years. And ARALDITE was sold to almost all the retail channels which also sells Bondtite. So it is not a new competitor which we will be facing, but now we will be facing this competitor through a new channel and a new partner of ARALDITE, no doubt there will be some aggression at some levels and at the same time lot of new opportunities and lot of new segments will also come up but in the business scenario no one you guy can suffice the



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whole of the market so always the dealer the user everyone who is always prefer a second level of brand which is needed like we are in CPVC and we are there from, we are the first one to bring CPVC to India. That does not make us that we only will survive and none of the other person will go or survive. Now there are around 100 , 100 out of them there are people who are surviving and growing also and we are also growing so we do not say that it would not be anything which would harm Astral Adhesive business but it would structurized both of sale of ARALDITE as well as we are also going on structure so just and there is nothing no way when Bondtite will have any issues actually Bondtite will have a better growth if this is happening because we are fighting three brands and companies like we are fighting only two companies, more favorable for Astral Bondtite.

- Kshitij Kaji:** Sir my second question is regarding CPVC prices so in PVC we said that we have taken a price hike so in CPVC also have we taken any price increase in the last quarter or October.
- Hiranand A. Savlani:** No we have not taken any price rise because the prices are stable so we have not taken any price rise.
- Kshitij Kaji:** Great sir. Thank you so much for answering my questions, all the best sir.
- Moderator:** Thank you. Next question is from the line of Girish Choudhary from Spark Capital. Please go ahead.
- Girish Choudhary:** My first question is on the adhesive segment pretty impressive growth of 30% plus so just keen to understand what was if I driven this as and how much is pent up how much is structural and within the segment which product has driven this, is it the maintenance related products or is it the construction chemicals.
- Sandeep P Engineer:** One thing is that we are sorry we do not give the individual numbers so we would be not giving this figures, but it is not a pent up thing it is more structural which I was continuously communicating and we would be making lot of the structural changes and we have implemented generally and also communicated that the last quarter of the last fiscal we had done completed all this and last call also because the first quarter are weak the numbers we are not there but again as communicated that all the change are in place and we will see a growth coming back from Q2 and again Q3 will again be only better growth can existed and that is all which is actually seen in numbers and happening.
- Girish Choudhary:** Sir secondly on the Rex pipes, if you can throw some light on the performance of this business especially from the time of acquisition how are the margins and the capacity utilization in that business.



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Hiranand A. Savlani : I think I have already communicated in my earlier communication that Rex pipe margin side it is pretty stable of 15% kind of EBITDA margin so that side we do not have a issue the only challenge was that the growth because of this pandemic situation the construction have been project division would not working government would not giving the money to the contractors and all so because of that the activities got reduced but now this is again putting up and in the month of October first time we are seeing the double digit growth compared to last October Y-on-Y basis I am telling you so it looks that now slowly and gradually it will start picking up but yes definitely there the growth was slow it would be degrowing into that but from October onwards we have started coming back to the growth. So keep finger cross that division should also start performing very well in this kind of situation because lot of small companies are getting affected so that is ultimately going to give us the good market share opportunity. So we are very seriously and closely working and monitoring that business also and there also we are doing lot of correction in the system and hopefully that correction will give us the fruit with a lag effect so it will take some more time to do the corrections and all these things. Before any correction which we do we always request every our investor that you have to keep up patience because patience is the only answer for all this solution so whenever we are doing the correction like I remember when we acquire Resinova that time also we were doing lot of corrections and because of that the stock price was not moving so everybody is connecting the performance versus stock price but actually whenever we do the structural correction we have to have take some time and their benefit will come with the lag effect the same thing happened again here we did last year correction in adhesive now you are seeing the performance has started coming that same this Rex business also we did the structural correction and now we are back to the normal margin of 15% kind of level and again I said that there is still room available for the further expansion of the margin into that segment because there is a huge opportunity and huge places are there where we have not even taken the entry so we are seriously working on that and hopefully in the coming quarter we should be doing better into that segment also. But it will take time because all those correction does not happen overnight.

Girish Choudhary: Thank you Sir.

Moderator: Thank you. Next question is from the line of Utkarsh Nopany from Haitong Securities. Please go ahead.

Utkarsh Nopany: I have two question, first on the pipe gross margin so if you see we have clocked gross margin of roughly 38% in September quarter which would include some benefit of mark to market gain on PVC resin inventory so can you guide us what kind of a sustainable gross margin we can target over the medium-term on an annualized basis.

Hiranand A. Savlani : So like gross margin would low compared to last year the region was the mix because CPVC was low compared to the PVC the sale out proportion of CPVC were low compared



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to the PVC which is the normally CPVC proportion is higher than the PVC so because of mix the gross margin has come down that will be corrected in the coming quarter now plumbing activities have started picking up so definitely now the CPVC should giving us a reasonably good number so that we will be back to the normal ratio that CPVC will be higher so then the you will see that some improvement into the gross margin.

Utkarsh Nopany: Sir what kind of gross margin you are targeting sir if the ratio comes back to the normal level of CPVC.

Hiranand A. Savlani: So there is no target in our company that we never work on target basis but we always try to see that we keep at a higher level so number can be wide fluctuating it can be between 36 to 41 this is the broader range it depend on market condition, it depend on the polymer trained so it will be in that broader range.

Utkarsh Nopany: And sir second question is that like our channel chips indicate that we have taken a price cut of around 3% in fast moving CPVC pipe products in October now versus our major peers taking two to three times price hike over the past six, seven month period so wanted to understand is it that we are looking forward to gain market share at the cost of some margin compression in near future.

Hiranand A. Savlani: So like individual level price fluctuation keep happening in the system so that is not the motive behind that so we keep changing the price list and all this things but again it depend on the discount what we are offering to them so I do not think that we are reducing the price so it is happening every quarter or every half yearly we keep changing the SKU level pricing. So I do not think that anyway we are reducing the price.

Utkarsh Nopany: So there should not be any impact on gross margin because of the price action we have taken in October month.

Hiranand A. Savlani: No, I do not think so not at all.

Utkarsh Nopany: And lastly sir for adhesive segment if we see our gross margin has come down sharply by 5.5% in September quarter despite we had done with rationalization of distribution structure and in contrast our major competitor has seen a sharp margin expansion in the same quarter due to benefit of lower raw material cost. So wanted to understand what is the reason for margin contraction for us and what kind of a gross margin guidance we can give say over the next one, to two quarter period.

Hiranand A. Savlani: So the adhesive there was a one off effect because some of the raw material was near to expiry and because of that and some already expired because of the pandemic situation so finished goods level and so because of that management took a call that in this environment



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whether it will be reaching to the consumer level or not in fact that we taking that to the system where we can destroy that much there. So because of that we have to take some hit in to that level otherwise gross margin I do not see any problem is there coming quarter you will see there will be a improvement into the gross margin but this was one of the effect which the management has taken because considering our brand strength we do not wanted that tomorrow something goes wrong into the product side and we start getting complain into that so management has judiciously taken a decision to not to sell this and auditor has given us the guidance that you have to provide it the number so that we have provided. So because of that gross margins are low.

Utkarsh Nopany: So like just wanted to understand we were clocking around 44%, 45% kind of a gross margin in FY2020 in adhesive segment so are we looking forward to reaching to that level say from Q3 onwards.

Hiranand A. Savlani: I do not think it was a 45 kind of level 44%, 45% kind of level normally is range of the 40% kind of level 40%, 41% kind of level max. So hopefully another couple of quarter yes we will be reaching to that level, we are also see the improvement Q3 also improvement will be there, Q4 also improvement will be there.

Utkarsh Nopany: Okay thanks a lot sir.

Moderator: Thank you. Ladies and gentlemen that was our last question for today. I now hand the conference over to the management team for closing remarks. Over to you.

Hiranand A. Savlani: Thank you everyone for participating in the call, and if for any reason we are unable to reply or some participant may not be able to ask the question, you all know my mobile number, you can call me anytime I am always available to answer your questions and thank you once again for Nehal for hosting this con call and wish you everyone a very happy Diwali and Happy New Year in advance.

Sandeep P Engineer: Wishing you a happy Diwali and Happy New Year in advance and thank you everyone and stay safe, stay healthy and we will again get connected with you shortly after the next quarter as well as if there is anything which we are doing for launching we will get connected. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, with this we conclude the conference call for today. Thank you all for joining us and you may now disconnect your lines.