



“Astral Limited
Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Astral Limited hosted by Spark Capital Advisors India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Girish Choudhary from Spark Capital Advisors. Thank you and over to you Sir!

Girish Choudhary: Good evening everyone. On behalf of Spark Capital Advisors, I welcome you all to the conference call of Astral Limited to discuss the Q2 FY2022 and first half FY2022 Results. From the management side we have Mr. Sandeep Engineer – Chairman & Managing Director and Mr. Hiranand Savlani –Chief Financial Officer of the company. I now hand over to the management for opening remarks post which we can open the floor for Q&A. Over to you Sir!

Sandeep Engineer: Thank you. Firstly I take the opportunity to wish you all Happy Diwali and Happy New Year. As we all know that we are passing through the tough time of pandemic, initially the COVID gave the challenges in the business and now the supply chain is giving equal challenges, but under all these circumstances and challenges I am very happy to convey that Astral team has done a remarkable job and delivered once again an excellent history high quarter in topline. Our CFO Mr. Hiranand Savlani will give details on all financial numbers post my initial remarks.

To give you the brief of our expansion plans, which got delayed due to the closure and the ongoing challenges of COVID we are all going to start production in the next few months. The much awaited east plant is almost ready and the installation of machinery is going on. We are going to start the trial production in the month of December and the commercial production will be started from January next year. Our wall plant is ready and we start production from December. We need not require to take trial runs as most of the products have already been started and have been tested in our existing facilities. As time goes we will be adding a huge range of industrial plumbing walls in CPVC and PVC to the size up till 12 inches, which would be the biggest wall ever produced in India in CPVC as well as PVC. Hosur plastic tank plant is complete, the machinery has been installed and the commercial production will start from the month of December and the south states will be supplied water tanks plastic water storage tanks from our Hosur plant December onwards.

I also take the opportunity to brief you about the new launch both the new launches in pipes and adhesives. In December the company has planned to launch first time in India a very

ultra modern state of art DWV drain, waste & vent pipe system with noise-insulation properties which will be very cost effective compared to the existing polymers for drainage application. The key features are to save time and efforts for easier installation, giving noise-insulation properties will be maintenance free will have high impact, improved occupational health and safety hazards, reduced risk of defects because of high impact strength, easy inspection for services and shock and vibration proof as well as we will give a resistance to the UV resistance will be there in the polymer which we will be using as a compound. In our Resinova we have successfully launched Bondtite Pro epoxy in the Indian market. This is the first of its time epoxy in the Indian market and we are getting very encouraging response from the market, which is most advanced epoxy adhesive having 7 times impact strength in comparison to standard epoxy adhesives and also it gives 20% high extra coverage. It is also having holding strength of four hours and gives better weather resistance. This property is made Bondtite Pro an ideal product for bonding multiple products multiple substrates used for construction and maintenance work. Even though plywood is the major component of making furniture since past several decades and now the world has started moving to replace the wood with artificial boards to protect the forest and maintain the ecosystem. Plastic wood is also going to take a big shape in this sector. The major challenge is currently the world is facing to how to bond it properly and how to bond these artificial products which are made out of different materials and not wood. Even the traditional PVA in the rubber adhesives are not giving satisfactory results. WPC is winning battle in the same but there is no specific adhesive is available in the Indian market. To overcome this issue first time in India Resinova has launched and introduced one innovative product called Resiwood WPC-FIX which is ideal to bond WPC to WPC and other substrates like laminates and acrylic boards as well as WPC to other products like even metals and motors or any other products, which has to be bonded with WPC.

Looking to the excellent demand scenario in both businesses of pipes and adhesives, the company has decided to undertake a capex of 200 Crores which will be spent in FY2023 and FY2024. This includes a state of art plant of CPVC, PVC pipes and fittings at Telangana South for which the company has already acquired and measuring 98970 square meters which is almost equal to 10 lakh plus square feet from Telangana government. We are planning to start production by FY2024 as our Hosur plant in the south will cross 80% plus production utilization by FY2022 and this will be helping to grow and cover the south states in addition to the Hosur facility which we have. Similarly in adhesive business we are putting up one more adhesive plant in Chemical zone at Dahej. The plant will be ready by FY2023 and the production will be available by FY2024 onwards. The company has already having land measuring 67000 square meters at Dahej. In this production plant will be completed the existing capacity will be substantially utilized in this one-and-a-half to

two years so we are preparing for additional capacity as the growth is happening and the challenges will be faced in the future. So we will be answering most of your queries or in your question and answer about our plants, about our capex which we have told about the new products, about the product line which we have almost announced to launch the ceramic ware as well as the faucets and we will be covering that in more detail in our question and answer and we will give you a more clarity on the new product lines which we are going to enter and already the planning is on and which we have announced to give the clarity as we have told that we will give you complete clarity on this business in our concall after the fiscal results. So we will take up in the question and answers we will brief you in detail on the subjects till then I will hand over to Hiranand bhai to go through the financials and then we will straightaway go to the question and answer session.

Hiranand Savlani:

First of all I would like to thanks all the participants for joining this earning call at the same time we want to thank Spark Capital for hosting this concall. Wishing you all a very Happy Diwali and Happy New Year. We hope we will continue our growth journey in this New Year and keep you all more wealthy and prosperous.

As Sandeep bhai said this quarter was once again a blockbuster history high quarter in terms of growth the market dynamics are challenging and within this challenging we are giving lifetime high quarter which keep our confidence more and more at a higher level. Now let us see the numbers which is already there in the press release, but I want to take it to the few numbers and then will highlight about this quarter. On a standalone basis on pipe business the topline has grown up in this quarter by 60% and the similar growth was there in half yearly that has grown with a 61%. EBITDA has gone up by 47% on a quarter-on-quarter basis and a half yearly 67% compared to last year first half. As far as this adhesive is concerned, adhesive revenue has gone up by 36% little setback was there in the revenue because our UK plant was having little shortages of raw material so UK has grown up only 12% while our Indian operation Resinova has grown up this quarter 47% growth. On a half yearly basis UK will deliver 36% growth and Resinova had delivered 70% growth and we are continuing our guidance of crossing 1000 Crores topline this year and we are maintaining this guidance at this stage. Now coming to the consolidated numbers, an EBITDA margin of this adhesive business is maintained compared to last year Q2 that was last year was 15.1% and this year is 15% more or less same EBITDA percentage is maintained. On a half yearly basis there is improvement into the EBITDA margin last year it was 13% in this year it is 14.5%. On a consolidated basis if you see the number the topline quarter-on-quarter basis has gone up by 54% on a half yearly basis it has gone up by 61%. Similarly EBITDA has gone up by 48.8% on quarter-on-quarter basis and on a half yearly basis it has gone up by 72.5% so with this now I want to take you to the key highlights of this quarter.

In spite of 20% volume growth company was able to reduce its receivable days and control its working capital cycle. The inventory was high because of inflationary trend in the pricing of polymer and we are expecting further price rise in the Q3 hence we have kept intentionally a highest level of inventory which we are confident that it will be reduced substantially by yearend because by yearend we are expecting the polymer will start dropping the level. Demand scenario is excellent in both the segments that are in pipe and adhesive. Plastic storage tank is picking up momentum month-on-month will pick up further month our south operation will start from December. Polymer prices played upward trend in October also as you know PVC price has gone up by Rs.20 in the month of October itself and we have passed on this in the market in October itself. Similarly CPVC price rise also been taken by Astral in the month of October which was very high price hike, from October 1, 2021 we have taken 5% price rise and from October 25, 2021 we have taken another 7% price hike so 12% price rise in the month of October in CPVC which will improve our gross profit margins substantially in Q3. We have lost some gross profit margin in Q2 mainly because the passthrough took place in the CPVC with a lag so because of that we have to sacrifice the margin into the GP level. I am sure you are keen to know about our new business vertical that is sanitaryware and the faucet business; we are working for the same in detail and will be ready with the plan by next concall. We will let you know in detail about your question which normally related to the products, kind of products, SKUs, investments, outsourcing model, manufacturing plant, etc., all these questions will be answered in the next concall till that time we request you to please have a patient and allow us to work on this plant.

Housing side demand is good and booking numbers are coming robust from the developers, which indicate that piping demand will pick up further with some late. CPVC demand was robust mainly due to good demand from housing side and secondly shift from PVC to CPVC due to narrow down of gap between CPVC and the PVC pricing. There was a huge pressure on gross profit margin in last quarter but we were able to maintain our EBITDA at 19% which is the highest in industry and we are expecting this pressure will substantially reduce in Q3 because we have already taken the price rise in PVC and CPVC in the month of October as explained earlier, this is mainly because of passthrough took place with little late. Similar pressure was in the adhesive business too where also passthrough take place with some lag so because of that GP was under pressure but due to robust topline growth we were able to maintain our EBITDA margin. Once chemical price will come down we will see a good improvement in GP as well as EBITDA margin in adhesive business. Now I am opening up the floor for the Q&A session. Over to moderator!

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin Jain from Fare View Equity Advisory. Please go ahead.

Nitin Jain: Thank you for the opportunity. I have just one question, so is it possible to quantify the inventory gain for the quarter and what would be the price gap between PVC and CPVC now?

Hiranand Savlani: I do not think any inventory gain in this quarter, on the account that we might have loss some because of this late passthrough in CPVC which I already explained that we have pass on 12% price rise in the month of October so there is no scope for inventory gain in this quarter.

Nitin Jain: Post the price hike what will be the price gap between PVC and CPVC?

Hiranand Savlani: The price gap which was sizably narrowed down so now it will further increase but at the same time PVC price has also equally gone up so will not be that gap more or less 2%, 3% gap might have been widened up with this price rise of PVC and CPVC.

Nitin Jain: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Hi good evening and congratulations for the results. Thanks for the opportunity. Sir I had three questions firstly to start with the entry into sanitaryware and faucet obviously you explained that more details will come later but just wanted to understand your thought process because the way I understand is the existing segment of pipes and adhesives were anyway growing, next five years we were expecting like 50% revenue CAGR and coupled with margin expansion, higher bottomline growth as well right so the aspiration of entering into a new segment is purely from a higher growth perspective or could you explain some thoughts maybe Sandeep bhai can explain that what basically drives the entry into this segment, what is the need for the company to invest here right now and what is the external environment telling you?

Sandeep Engineer: Basically you can say and you are correct that existing business has prospects and it is growing and we are equally working on it, it is not that we have led down anything in that, when we entered the pipe and when we entered the adhesive business similar questions were raised and we have proven ourselves to make headroom in that business too and at least make our mark in our adhesive business. Now we have a strong dealer network now which is very active almost close to 2 lakh active dealer network and a huge network of distribution we have almost with adhesive and with our pipe we have crossed 12000 plus distribution points and the same is the thing I ended up all the time. So this was a right

product mix for Astral to get into make its foray, use its brand first is the strong brand equity holds with the users, second come out of the wall, we are behind the wall now we will be in front and secondly use this channel which we have created a very strong channel and so this business was fought around, worked around for almost substantial time it is not that overnight we have just opened our eyes and said come on run after this, almost more than a year-and-a-half I made my homework on this, done equal surveys of the market, our channel has been surveyed and then we have gone ahead with the decision but still we will not be rushing into anything we do not want to rush and say a year gap is there we would be making the product in the right mix, right pricing, right quality and then place it with the market so the right plan of the product line, the ranges and plus the investment behind it what we would be making what we will be outsourcing will 100% be given in total clarity which Astral has always done with its investor as well as the analyst people and whoever needs this information will be completely disclosed put in front of you and then the business will be moving but the choice has been made with lot of homework not just like without doing anything and we again are there to make a right product can grow slowly we do not want to benchmark ourselves against anyone and just say that we would like to fight with anyone and become big but we will create say right impact in the market with this product and it is going to give us a great leverage in the market.

Rahul Agarwal: Sir just to clarify so this sanitaryware and faucets both will be metal part as well right I mean not only PVC fittings right?

Sandeep Engineer: Metal.

Rahul Agarwal: Second question was on capex so my sense is in the first half cash flow statement give the number of about 190 Crores I think this is substantially higher than what fiscal 2022 guidance was so just to understand what has drawn down this higher capex for first half where are we spend this and second is related question was what is the revised number for this year because 2023-2024 is already mentioned that you will spend 200 Crores but I just wanted to understand this year capex?

Hiranand Savlani: This year we have spend almost Rs.40 to Rs.50 Crores for purchase of land so like Telangana land was there then we have purchased a land at Hosur, we have purchased a land at Rajasthan, we have purchased a land at Ahmedabad because all the lands which we have purchased except this Telangana which were adjacent land to our existing plant. So that was the ideal for us to add the land bank because the kind of growth which we are seeing in the market and the opportunity which we can see clearly the way unorganized players are getting affected and the way brand Astral is getting stronger and stronger day-by-day that has given us the boost to acquire the adjacent land first and then there is a

additional land of to Telangana so sizable amount we have spent into that side so because of that I think capex has increased and we will give you again a final figure with all this sanitaryware and all this investment because we have to keep in mind the new business is also like Sandeep bhai had said in the initial remarks also that we are coming up with the DWV also so that product will be produced in Ahmedabad so we may get additional land over there also. Plus I am very happy to say that we are also thinking to put up a state of art R&D facility. So far whatever the capex Astral was doing or whatever the amount was spending it was merged with the current capex and the expenditure were charged to the P&L for all this R&D related activity, but now we are going to put up a separate R&D facility which will be a state of art facility and there we are going to do R&D work for pipe as well as adhesives and that facility will be separate from the plant so there also we are going to spend some money so I think lot of new plants are coming so because of that we have to spend little more capex than originally plant but with this additional capex we are definitely going to give you additional revenue also and additional growth also and additional new products also.

Rahul Agarwal: Sir so just to conclude on this fiscal 2022 should we assume 200 Crores as full year capex or it will be higher?

Hiranand Savlani: That depends how the sanitaryware and faucet plant is working out because there we are still working so once that amount will be freeze I think that time will be the right time to tell you what capex will be there but initially we have worked out that it should be somewhere around 200 to 250 Crores kind of capex.

Rahul Agarwal: You said 200 Crores will be spent for expansion of pipes and adhesives in fiscal 2023-2024 just wanted to know what kind of volume capacity will be added in pipes and adhesive separately if you could just give that number and what kind of additional sales can we get from this 200 Crores capex?

Hiranand Savlani: In pipe we are targeting 30000 to 35000 metric ton capacity at Telangana and adhesive I do not have a capacity number to be very frank but that will generate additional close to about 6 time revenue than what we are going to spend the money.

Sandeep Engineer: Yes, but in adhesive always see capacities are very high because the packing was very low and you cannot be a small reactor today and then bigger and then bigger always in adhesives you will see that the capacity looks very high because the reactor size are very high and the reactors cannot be replaced year-on-year or two years, three years pipes they are not extruders which are added in the lines and then the capacity comes up both businesses have different ways of calculating the capacity adhesive I think the right capacity

can be calculated on your packing lines because you can make enough product but how fast and how speed you pack the product is very important because it is sold in small packs it is sold in tubes, it is sold in 100ml, 200ml, 500ml pack so capacity wise the adhesive will always look a bigger capacity, utilization wise it will look like you are utilizing this much but ultimately you have to see how much that is growing in the volume terms that is very important. In adhesive the asset turn is very high so that is the comfort to the return point of view and secondly the addition of capacity cycles are very long you do not need to keep adding and investing so much money once a proper reactor and a system is placed thus you have to keep adding the packing machines and that only keeps on increasing the capacity so that capex after a proper capex is done is much less and substantially very low.

Rahul Agarwal: Sir how much we will spend in adhesive capacity?

Sandeep Engineer: At present not much because we will be going one by one basically in this Dahej and it will be a phase wise so first phase we will be adding around 40 to 50 Crores not more than that and land is already there.

Rahul Agarwal: I will come back in the queue. Thank you.

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

Sonali Salgaokar: Sir thank you for the opportunity. Sir my first question is regarding the demand trend from October you did mention that housing demand is quite strong would you be able to quantify the volume growth in October?

Hiranand Savlani: I do not have a handy number of volumes but it should be a double digit and the value growth was roughly about 50% kind of level.

Sonali Salgaokar: This is the consolidated revenue right?

Hiranand Savlani: Yes, consolidated only.

Sonali Salgaokar: Sir my second question is regarding the PVC scenario globally you did mention that you expect the uptrend in PVC to continue even in the further two quarters but just wanted to understand broadly is there any supply constraint globally and just another part to this question is what is the current capacity utilization that Astral is operating in the pipes division?

Hiranand Savlani: So like Sonali that we have not said that this trend will continue for two quarters, we have clearly mentioned in the press release that Q3 this trend will continue because we are not sure whether it will continue in Q4 or not. As per today's situation still there is a short supply globally so because of that it looks that it can be extended in Q4 also but at least for Q3 we have a clear visibility the kind of new booking everyone has done for the import that is at a higher price so that all material will land in India in the month of December so till December we have a very clear idea about the price rise continue but how it is going to be further extended that will be known only one month or two months down the line but as of today still short supply is going on so because of that we do not see any easiness in the pricing in PVC. Coming to your second question of capacity utilization I think overall capacity utilization of a company as a whole is roughly about 61%, 62% at Q2 level and which will further accelerate in the coming quarters in Q3 and Q4 because CPVC demand is robust but at the same time there is a constraint of supply going on so far touchwood Astral is able to manage that but otherwise there is a challenge of getting the raw material also in CPVC as well as PVC but somehow we are able to manage because of our long relationship with the supplier.

Sonali Salgaokar: Sir lastly just one confirmation you said capex 200 Crores in FY2023 and 2024 means per annum 200 Crores right?

Hiranand Savlani: No, 200 Crores for two years for this adhesive and the pipe and plus there will be a sanitaryware and faucet and plus anything add will be added by Astral if the new product launches will be there which we cannot disclose at this point of time because lot of things are in pipeline which we may launch, if we may launch the new product and in that case there will be additional capex like the DWC we have introduced the first question was that this year the capex is more because we are going to launch this new product and which is the one of the best products available in the market when we are going to launch next month.

Sonali Salgaokar: Got it Sir. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Yes, good evening Sandeep bhai and Hiran bhai for continued excellence. Just a broader longer-term wanted to understand your mind to me I think a country as an economy we are poised for a very different kind of a growth profile than what it has been so far and relatively infrastructure and other capex related activity also should be picking up significantly rather than very tepid and slower strength we have seen for last several years

so given all of that do we believe looking at our product portfolio and our entrepreneurial ability to keep identifying new opportunities as we have added time to time from pipes to adhesives and then to the tanks and now looking at the foray in the faucet and sanitaryware activity would it be fair to say probably if we look at next five years Astral has probably one of the best opportunities than any other time in the past?

Sandeep Engineer:

See Bharat Bhai this exploring products which have similarity in business and sales in the segment we are in the construction industry and the building industry is always going on and opportunities come and go knock our doors and we are always exploring but whatever we have taken if we have seen that pipe was our initial business but adhesive as we took we may be stable we have put it on the path of growth and the systems have been in place, similarly now we have taken up to come into the faucets and which also lot of homework has been done before even we split the market in a large more at our internal levels at our management level and similar opportunities will always be continuously explored by Astral and the leverage we will be using is two things one is the strength of its brand and now the strength of its reach in the market through dealer network one, through distribution network and the strongest program and connect with the users. So you are in a sense right that this process of exploring and getting into newer opportunities is there and it will continue and it is too early to say that what is going to unfold in these five years or in the near future or the longer future.

Bharat Shah:

No my question was if you look at last several years we have grown because we have been more agile in understanding and grabbing the opportunity despite the fact that external environment has not been particularly supportive my conjecture is that external environment the economy, the businesses and infrastructure in particular probably we are going to see a remarkable change in the next five years than what we have seen so far therefore what helped us to grow all along with our internal agility and capability and entrepreneurial ability to spot and fructify those opportunities. Now probably external environment also will aid to get strength internally therefore would it be fair to assume or is it nearly conjecture on my part and that probably both externality and internality are at a happy kind of a holly union?

Sandeep Engineer:

Yes you are very correct and you are absolutely correct that the external environment is very conducive now for growth and the internal capabilities which we have created all around from right from the manpower to the managerial levels to the management level to the senior levels and made our home and our in-house collections and put things in right place is going to help us the way the external things are moving in a positive direction so you are absolutely correct this five years are going to be the great growth drivers from both

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ends and it will drive Astral to new heights, you are absolutely correct and thank you for this understanding of demand.

Hiranand Savlani:

Let me add Bharat bhai what Sandeep bhai has said I think I am the most bullish person in the history of Astral in today's environment I have been working with Astral from almost 2003, the kind of environment which we are seeing for the sector it is really remarkable changes happening at the ground level so we are very, very bullish internally. The second thing is that you have rightly said that the team I think Astral was not having too many senior management people within the team, now Astral had added the people maybe from IIM or maybe having a good companies in India people are waiting to join Astral so biggest advantage Astral is enjoying that we are adding the strong team with the astral so that is going to take the Astral to the next level. Third thing is I think the biggest thing which we have done so far is the technology support so if we were not using too much of technology support in the business but the way now we are using the technological support in the system and the way things are moving in the automized concept that I think going to take the business to the next level because with this technology only you can take the higher volumes without getting more pains so which is what I think Astral is doing, today all our distributors need not to call even our head office sitting in their cabin, sitting in their office, sitting in their shop they can do everything they want to do with Astral so that is the biggest achievement Astral has done in this last three years I can say so that is the biggest advantage I am seeing today and that another thing which Sandeep bhai has rightly pointed out the connect to the end user that is our plumber, carpenter we are connecting to each and every plumber with our system so today in our loyalty program each and every plumber is connected I think that is the biggest achievement we have done in this last two, two-and-half years so we have developed so much of software and technology fronts that today we are connected with all our channel partners, dealers, distributors, plumbers everybody so that is going to give us the edge in the industry and that is going to give us the lead to grow at a faster run rate without taking too much of pain so I think we are very, very positive about this current scenario.

Bharat Shah:

Therefore will it be fair to say that if we look at a base which is now become a higher over last five years if we look at next five years even on these increased base given the fact that we are adding new lines of activity, external environment is supportive and internally number of improvements have occurred in the character of organization and the business our growth rates even on these larger base should exceed compared to what we have done over the last five years?

Hiranand Savlani:

I think you have rightly understood Bharat bhai and officially where we have communicated in our last presentation that Astral is targeting to double its topline in next

five years conservatively we have given the guidance also so we are quite confident that we will be doing much, much better in this environment and that we already communicated in our presentations also and with this new addition of the product tenure there are high probability that we may grow that also.

Bharat Shah: Fantastic thank you and just one last point not to be found space for that actually to point out actual part here as you mentioned that this has been a blockbuster quarter in the details you also said it is historically the highest in turnover yes it is but in profit I think historically largest has been first quarter of the last year so I do not think to be a spoilsport but I just wanted structurally our point on the table?

Hiranand Savlani: I accept it very well whatever you are communicating but Bharat bhai at the same time we cannot see only a particular quarter profitability because we have already clarified that passthrough took place very late in this industry in the month of October alone we have passed on 12% price rise in CPVC and equally close to about 12% to 13% price rise has taken place in the PVC also so you wait for the Q3 number and I am sure I will prove myself that what we are communicating we are communicating always transparently and positively to the market.

Bharat Shah: No, there is no doubt, congratulations; I was just pulling your legs nothing serious.

Hiranand Savlani: No issue you have a full right you are our oldest shareholder so you have a full rights to do that part.

Bharat Shah: Thank you. Hearty congratulations to entire Astral team.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Thank you so much for the opportunity. Sandeep bhai if you can just talk about the overall opportunity from the overall wall space that you are talking about any new capacity coming in how big is the opportunity what are the kind of asset turns there if you can just throw some light it will be helpful?

Sandeep Engineer: In the pipe and adhesive both or you just mean wall?

Abhishek Ghosh: In the wall.

Sandeep Engineer: The wall has two opportunities one is industry is a huge opportunity because in India in industry the walls are mostly important, nobody makes CPVC and PVC industrial walls in

India to the quality which industry needs. Today also we sell walls in industry which are imported from US; there are two global brands in the wall market. So there is a great opportunity in the industry segment and as you know industry is growing and especially the water treatment industry is growing very fast which needs many, many numbers of these different walls. Second when you go to the plumbing segment absolutely it is growing so there is a huge demand of walls and people above two inches mostly use metal walls, so with a good quality of wall we can also replace the plastic walls in plumbing in the higher sizes. So the opportunity of wall has been great in numbers and in growth but best thing in the wall is the margins are very good one and second it is a tough product to make. When you have to make a wall for the industry it is a tough product to make and it is a tough product to succeed because the wall has moving parts and if you do not make it rightly with the right choice of material the failure is very high so wall has a great opportunity.

Abhishek Ghosh: Will it be fair to assume that 15% of the overall pipe market could be these walls which could be addressable?

Sandeep Engineer: Yes it would be around that 10% to 15% if the higher sizes are also moving with the low smaller sizes.

Abhishek Ghosh: My second question is if we look at your because this quarter does not have any inventory gain as Hiranand Sir mentioned and it may actually have some inventory losses despite that if you look at your pipe EBITDA per kg into that Rs.42, Rs.43 per kg but if we look pre-crisis this number used to be much lower in terms of EBITDA per kg so now the base seems to have moved drastically if you can just talk about the sustenance of this and the competitive scenario which has helped you if you can just throw some light it will be helpful Sir?

Hiranand Savlani: I think the sustainability will be arrived when the stability comes in the polymer price till the polymer price is not stable it is very difficult to say what will be the sustainable level. These kind of margins are very high margins which we have communicated in past also but market is giving opportunity to us and our economies of scale is giving us the advantage so because of that we are able to get the advantage out of that but once the polymer price will stable down and the availability will be freely available all the polymers then at that stage will be the right time to arrive what will be the right number but at this stage I think still it will be high only because still the supply constraints are going on and polymer prices are not coming down so because of that there are high probability that these kind of high margin will be maintained.

Abhishek Ghosh: Okay Sir thank you so much for answering my questions. Wish you all, all the best. Thank you so much.

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

Kunal Lakhan: Sir you mentioned that you have already taken price hikes of 12% and still expect polymer prices to go up so have we taken enough sufficient price hike or because of the polymer price going up will consider further price hikes in November and December?

Hiranand Savlani: No like whatever raw material price has taken place we have completely passed on to the market so we are not going to take new price rise unless there is a price rise in the polymer if the raw material price will go further from here we will take the further price rise otherwise whatever so far the raw material price has increased we have passed on to the market.

Kunal Lakhan: And the fact that your volume growth remained robust in October as well as the market is absorbing the price hike right?

Hiranand Savlani: Yes, definitely market is absorbing the price.

Kunal Lakhan: So just a related question on that would be that what is the price gap between say organized players and unorganized players today is it wider and has it narrowed?

Sandeep Engineer: See price gap is not a question how much unorganized player is able to make and sell because of all these cycles, the availability of raw material, the price rise, all these issues has almost you can say that the unorganized players are in a very bad shape their working capital cycles have all been haywired so it is the organized sector which is being now growing and there is some price gap but actually they are paying more to get the material and selling at a lower price so again you can understand what challenges they are facing so now the question of this unorganized sector price gap is almost gone market is not even talking about it.

Hiranand Savlani: Let me add what Sandeep bhai had said that today most of the time if you see in last three four months there is a grey market premium on polymer price so normally the unorganized player has to source from the creditors only majority of the unorganized players few maybe sourcing from the Reliance or maybe Chemplast or something so if there is a grey market premium going on in the polymer and they have to source from them then how can be they cheaper than us it is very, very difficult for to be a cheaper than us so this is a very, very

difficult time for the unorganized player who fight with the organized player and that is why you are seeing that all the organized players are doing good in the market and everyone is delivering the growth.

Kunal Lakhan: Also just clarifying one thing you said in your earlier comment that gap between PVC and CPVC is about 2% to 3% is that correct?

Hiranand Savlani: No I say that whatever the gap was there it might have been reduced by 2% because PVC price had gone up by almost 10% kind of level and CPVC price has gone up by 12% so to that way 2% gap has reduced.

Kunal Lakhan: The gap is reduced somewhat but not...

Hiranand Savlani: Not 2%, 3% otherwise everyone will buy CPVC or PVC.

Kunal Lakhan: My last question is in your comment you mentioned that in the adhesive segment there was a shortage of raw materials in the UK plant should it resolved or still going on?

Hiranand Savlani: Yes right now this has resolved so we are expecting that this quarter should be better for them.

Kunal Lakhan: Okay great thanks so much and all the best.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: My question first of all congrats on great set of numbers. My question pertains to first housekeeping how much is the production number for Q2 pipe production number?

Hiranand Savlani: I do not have a handy number but you can call me separately I will give you. 39500 or 40000 something like that.

Rajesh Ravi: I will check that separately. Second is how much would be the agri irrigation segment contribution to your pipes revenue broadly?

Hiranand Savlani: Hardly anything we are not in agriculture business much, even a little bit agriculture pipes which we are selling majority of them is going to the plumbing side.

Rajesh Ravi: This 200 Crores capex Telangana project FY2024 this is all encompassing in terms of the land cost is also included in that or as you mentioned you have incurred 40 odd Crores to a land?

Hiranand Savlani: No I think you have misunderstood 200 Crores include adhesive capex also this is not only Telangana and land is not include that land now we already have paid off.

Rajesh Ravi: Sure so for Telangana project for the pipes and fittings should be at what size?

Hiranand Savlani: No it should be initially to start with should be somewhere around 30000, 35000 metric ton and then later stage we will add. Normally what happened that we make the plant of a bigger size and machinery and all we put as per the requirement so like in Hosur also we started with 15000 or so then we added today we are at 35000, 40000 at Hosur. Similarly we did in Ghilot also Rajasthan that we started with small capacity 20000 but the plant was bigger so because of that now we have added the machine over there so we are increasing the capacity over there, like similar model we will follow in Telangana also the initially will be 25000, 30000 and then at a later state we can add another similar project so originally our plant will take care of 50000 to 60000 metric ton capacity minimum but machinery will be in phase manner.

Rajesh Ravi: So in FY2024 you would start off with 25% capacity and subsequently in next few years you will double the capacity over there?

Hiranand Savlani: Perfect.

Rajesh Ravi: For this year excluding the bath ware which you are still to formalize the capex what is the total capex one should look at?

Hiranand Savlani: I think this year it should be somewhere around 250 or something like that.

Rajesh Ravi: And the bath ware would be over and above that as and when it stands and for next year...

Hiranand Savlani: This includes our new launch also which is going to be in the next month.

Rajesh Ravi: So that capex would already been done in the first half 190 Crores?

Hiranand Savlani: Yes, we have already done the capex for that product.

Rajesh Ravi: So 250 odd Crores for this year and 200 Crores spread over two years and normal maintenance and that is still whatever expansions you announced going forward?

Hiranand Savlani: Because we deviated from our original guidance because this Rs.40, Rs.50 Crores additional we spend in the land which we added at every location and plus this new product.

Rajesh Ravi: This price increase in CPVC and PVC which you have taken in this October so is the margins now 14 this quarter this is the current costing at similar level of the September quarter?

Hiranand Savlani: It should be better than September.

Rajesh Ravi: It would be better than your September quarter margin.

Hiranand Savlani: Some inventory loss because of the pass through of CPVC took place in our index.

Rajesh Ravi: Yes, that is why you see margin expansions in the third quarter Q-on-Q. Great Sir I will come back in queue. All the best.

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

Sneha Talreja: Good evening Sir and congrats on a great set of numbers. Sir my first question was related to inventory of the channel so how are you seeing the inventory of the channel and is there any resistance from the distributors for picking up inventory given that prices are almost at all time high?

Hiranand Savlani: I think if that is the case we cannot grow because we have grown 20% volume so that clearly suggests that there is no resistance at the distributor level or a dealer level but yes there is always a cautious view at the distributor and dealer level whenever we do the announcement of price rise at that point of time they pickup sizable quantity and when there is a peer factor in the market they sometime reduce their uptake also but underlying current is so strong from the demand point of view that today even after so much of price rise distributors and dealers are sitting with a very lean inventory they are not sitting with the higher inventory so we do not see any problem into the system because underlying current is very positive so they have no choice but to buy at a prevailing price because they are getting the same price from the market so I do not think any problem into the demand scenario in the market and above all with this if they are holding it our working capital cycle has improved so obviously they are selling the product. The receivables are also very much under control so there is no holding in the channel as of now.

- Sneha Talreja:** Secondly any clarity with regards to BIS norms implementation we saw some impact of, we have got a verdict from Kerala High Court, but apart from that our other geographies implementing it and are you seeing some amount of shifts also because of that or this is a working capital issues and availability issues that you are currently seeing?
- Sandeep Engineer:** It will take a few more months to get into this and at present even I think this coming out of this take a few months so it will happen and it will help the organized players in a big way it will happen at some point. So we have to wait for some more time to have a more clarity because you do not know and I do not know how the courts are taking the decisions and how much time they are going to take it is very difficult to give the timeline but one thing is sure that government has taken the initiative so they will complete.
- Sandeep Engineer:** Looking to the polymer scenario and all the market challenges with the smaller players and going to make it happen but it will take some time and already there is a subjudice matter so it will take some time to get that implemented.
- Sneha Talreja:** Got that Sir. Similar to what is the opportunity size that you discussed could you also discuss about your other new product launch which will be happening from next month that you said?
- Sandeep Engineer:** We cannot discuss once it is launched in the next call we will obviously discuss it.
- Hiranand Savlani:** Better first launch this product and then at that stage we will communicate to you but I can tell you this is the very big opportunity.
- Sandeep Engineer:** The launch date we will always pass to the stock exchange and also pass a detail note to all our investors and all our analysts at a large so we will get all the details at that stage.
- Sneha Talreja:** Sure got that Sir, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Nikhil Agarwal from VT Capital. Please go ahead.
- Nikhil Agarwal:** Sir could you help me with some growth revenue guidance and margin guidance for FY2022 and 2023?
- Hiranand Savlani:** I think this is very difficult time to give you the guidance about margin and all these things because we do not know what is going to be the scenario at a broad level one side the polymer prices are going up second side supply constraints are going on in the system and chemical prices are going haywire so under this situation I think it is very difficult for us to

give you a guidance for the next year let first the thing settle down afterwards we are the most vocal company so we will definitely come forward and give you the guidance also.

Nikhil Agarwal: Like this CPVC prices on a rise now and PVC as well so do you see some demand being shifted to HDPE?

Sandeep Engineer: Which shift to what?

Hiranand Savlani: HDPE. We do not think so and majority of the product where HDPE there in agri and all we are not there so I do not think it is going to affect us.

Sandeep Engineer: At the company wise it would not have a shift so not at all.

Hiranand Savlani: I am telling you that if this will be the scenario then the CPVC product will be more accretive to the market.

Sandeep Engineer: If the CPVC prices would keep on going high CPVCs demand would go more and more higher and that will help us to sell more CPVC and grow our CPVC base which is obviously growing much faster than the PVC base for us.

Nikhil Agarwal: Sir could you help me with the current prices of the CPVC and PVC resin and how much it was at the end of the quarter?

Hiranand Savlani: PVC I think it is already there in the public domain you can go to the website you will get every price rise every day wise price rise so today it is roughly about Rs.160 per kg is going on CPVC depend on the every company sourcing from different places so everyone has a different pricing so it is very difficult for us to communicate our pricing to the market.

Nikhil Agarwal: Sir just one last question the rise in CPVC resin prices so have you said like the PVC prices rise so it is better for you because the demand will shift in CPVC so will the price rise in CPVC prices in the last few weeks do you see the demand going back to PVC and the having impact on your margins again?

Sandeep Engineer: No, actually PVC has grown much higher than CPVC. CPVC price rise has taken place at a very small level compared to the PVC price rise so even if the CPVC price go further from here it is not going to affect much to their demand. Because CPVC Price hike had not taken place at all in India and actually if you go with this fiscal this is the first time this price rise has been done and correction has been made in CPVC there are several occasions and several months every month two or three times the PVC price rise correction has happened.



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- Nikhil Agarwal:** So do you have any long-term contract with the suppliers?
- Sandeep Engineer:** We cannot disclose but we are in a very safe position of raw material which I can tell you but what contrast whichever our pricing are all confidential and what as Hiranand bhai said that we are keeping our fingers crossed and we are blessed that we are having relationships and with the supplies who are supporting in both PVC and CPVC.
- Nikhil Agarwal:** Thank you Sir that is it from me.
- Moderator:** Thank you. The next question is from the line of Somil Mehta from Kotak Life Insurance. Please go ahead.
- Somil Mehta:** Thanks for the opportunity. Sir if I look at the Astral journey over the last many years we had entered into category which are more polymer or at least strong on tenacity which has been our core strength now be it adhesives or tanks and especially categories where there is a large unorganized presence as well, now if I look at the new category which we are going to enter does it mean that there is a change in DNA and we will be now more open to other building material categories which might not be polymer based or something which is strong on chemistry but some other factors?
- Hiranand Savlani:** We have communicated very clearly in many of our convergent in previous concalls that Astral is very clear as far as the growth journey is concerned we want to focus to leverage our brand and to leverage our network. You look at any product which Astral is entering two things we are seeing very clearly one is leveraging the brand Astral second is leveraging our network so similar strategy we are following in to the faucet and sanitaryware also where we are going to strengthen up our brand and secondly to leverage our network which is having a sizable network with us so because of that we are entering into that business we are not deviating anything our strategy wise five year before also we have communicated same thing you can go back and see our earlier communication, our interviews, our concalls every time we have communicated one clear thing that we want to go ahead with this strategy and we are continuing with that only. To add what I understood about things is that yes we would be open to keep on exploring where there is technology, there is a chance of growth and where there is usage of our brand but yes technology wise we will be playing a big role to see that we enter into a product line where we use our expertise and we would remain in the product line which cover this more over so strategies are made will be made and will be disposed as the time comes but here we have one more product line which we have to work on.
- Somil Mehta:** Sure and in terms of any update on tanks business has been few quarters we have entered?

Sandeep Engineer: This is doing excellently well the way we imagine and the way things are happening we are not going with any job work from anyone from any of the smaller players Astral is building its own capacities at different locations so that is taking some time as we first started off with Aurangabad then the Ahmedabad will come into production then now last one month over a month the Ghilot plant has come into production giving north and now the south plant will come into production and after south the east plant will come into production so Astral is going. People need to look a little slower at the base but we are growing with the strong foundation of giving the product manufactured within our own premises. So we are not compromising on quality of the product and giving the best product to the market and market has really appreciated the Astral tanks and we have a unique technology of pattern with which we have brought for the first time in tanks inner layer is made with a special compound which has some copper inside and as India you know the copper vessels and the water is stored it is the hygiene of the water intake so the Astral has brought this new technology in the tank and which is for the first time this technology has come in the inner layer where the water is in contact in the tank.

Somil Mehta: Sir my last question is in terms of there seems at least the expectation was there is going to be a significant dip in the capex activity both at the central and the state level where are we in terms of DWC business or maybe also this Jal Jeevan Mission or significant orders coming by?

Sandeep Engineer: DWC we were a little lower as you knew that the capex cycle from government were on the lower end but last few months it has picked up and we are doing excellently well on the DWC and other products which are with the infrastructure so we are doing very well in that and secondly with the Jal Jeevan Mission we have got lot of approvals now and we started supplying HDPE to Jal Jeevan Missions in some projects but again Astral undertakes the government project infrastructure project either to distribution to secure its own finances or to supply through the contractor where the financier is very safe or else take the bank guarantees or finance reassurance and supply. We can go faster but we are keeping two things in mind growth value and at the same time securing our payments with the government contractors, government bodies and giving this product we do not want to break our finance cycle and rush into anything.

Somil Mehta: Thank you so much and all the best for your future.

Moderator: Thank you. The next question is from the line of Arafat from Reliance Securities. Please go ahead.

Arafat: Thanks for taking my question and congrats on great set of numbers. My first question is on organized and unorganized, I believe this quarter is very good for organized sector while unorganized sector continue to face issues so can you throw some light on that?

Sandeep Engineer: See basically no unorganized sector or no sector can be wiped off and we or nobody is here to wiped off anyone but as it is very crystal clear you can say that the polymers have gone very high hay wire, the supplies are in restrictions, the finance cycles are disturbed, the working capital cycles have gone into a still, so obviously the organized sector with stronger financial backup are gaining moment, but I do not say that unorganized sector has been wiped off and this is not what we wish and which would happen so yes it is probably as the cycles are clear and very transparent.

Arafat: Sir the similar question if you look at it in the past couple of quarters in fact the market condition happened in a big way and a smaller player continue to disturb the company to get out from the market so let us say any figure how much the share of unorganized can be going ahead so if you can throw some light on that?

Sandeep Engineer: Yes, somewhat the share maybe taken but nobody was disturbing each other, the brand was playing its own role and the unorganized players are playing its own role in the rural, but when you go to the urban cities or the B towns, C towns the organized people are getting conscious about the quality they got and people are getting more conscious about using the right mix of the product. Obviously this is going to have the people who make the best of the product and same I am telling you organized and unorganized in the plastic especially business or any adhesive business the supply chain is very important. The unorganized supply chain is only restricted to one state two states whereas we have a supply chain with the strong set of systems throughout India and it is available it is your product if it is not available anything can be used so we have supply chain so how fast you supply, how fast you can give the product, how fast you can service the market, how rightly you service the market and the quality you give lot of things are happening which is helping, these companies who have plants at different locations and make the right product, we have to make the right product at the end.

Arafat: Thanks sir that is all from my side thank you.

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

Ritesh Shah: Thanks for the opportunity congratulations for a good set of numbers specifically on the volume growth. Sir I wanted to figure one particular variable on the gross margin you

indicated that the pass through happened with a lag can you please explain this why this phenomena because as an industry always the pass through has been pretty quickly be it a fortnight or in a week is there any reason for this?

Sandeep Engineer: Basic thing was that we have some inventory which was old but some inventory which was new and I wanted to gain the markets. I wanted to get to the maximum level of the market and the retail chain my expansion of retail chain and the market has substantially helped me and it was the volumes which we were delivering the value which we are delivering was a compromise of few numbers in the profit but the gain on the other hand was much higher. So either I have to take the gain to reach to the nook and corner of India and to every builder of India every retailer of India every plumbers or else to take that and that has helped me and it is something which was strategically done to close the last quarter and then take this.

Ritesh Shah: So should one assume this as short-term phenomena for market share gain?

Sandeep Engineer: There is nothing short-term once the gain is happened it has happened. Actually everyone has raised the price so where obviously again there is no issue on that it is not that I only increased the price. Everyone has increased the price but it is not a short-term gain it is a game where actually helped us to create in roads in many towns and many places in the retail chain and it is never a short-term because all these data all these are connected to us and this is really going to help us and it is helping us today also.

Ritesh Shah: That is useful Sir. Second question is you did touch upon availability for CPVC and PVC can you highlight what is the status over here what I understand is CPVC availability is specifically is tight even for the larger players is there an acute dearth of the material right now in the market are we better placed or how should one look at?

Sandeep Engineer: Yes, again I cannot comment on what the others are facing it is not my job to comment on it but as Hiranand bhai said that the relationships which we have and the relationships we have maintained and the amount of confidence we have I cannot say confidence the amount of commitments we have from this relationship we are on a safe track for the raw material, predicting today the future is the toughest call of this era.

Ritesh Shah: That is quite helpful Sandeep bhai. Thank you so much and wish you good luck.

Moderator: Thank you. The next question is from the line of Nitin Jain from Fare View Equity Advisory. Please go ahead.



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- Nitin Jain:** Yes my question has been answered. Thank you.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the conference to the management for closing comments.
- Sandeep Engineer:** We thank everyone and stay safe, stay healthy and looking forward to seeing you again after one more quarter of hard work and Hiranand bhai will give the closing comments.
- Hiranand Savlani:** Thank you all the participants for joining this concall and if any question is unanswered my mobile is always available for you 24/7 you can call me anytime and thanks the Spark team for hosting this concall and wish you again all the best for the coming times because now it looks that we all are coming out of this pandemic issue and hopefully India will be growing much, much faster run rate than what we have grown up in last two years and that is what we are expecting so that everyone can grow with us also. Thank you very much.
- Moderator:** Thank you. On behalf of Spark Capital Advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines.