"Astral Poly Technik Limited Q3FY16 Earnings Conference Call"

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MODERATOR: **MR. PRIYANK CHANDRA – DOLAT CAPITAL MARKETS**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Astral Poly Technik Q3FY16 Earnings Conference Call hosted by Dolat Capital Markets. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Priyank Chandra. Thank you and over to you, sir.

Priyank Chandra: Thank you. Good Evening, Ladies and Gentlemen. We welcome you all on behalf of Dolat Capital to the Conference Call with the Management of Astral Poly to discuss the Financial Performance for Q3 Fiscal '16 and the Future Business Outlook. Representing the management of Astral Poly, Mr. Sandeep Engineer – Managing Director; and Mr. Hiranand Savlani -- Chief Financial Officer. Now, I hand over the conference to the management for the initial comments and after which we can move on to the Q&A. Over to you, sir. Thank you.

Sandeep Engineer: Hello! Everyone. Sorry, we had to push for the con-call on the same day because I was at in social commitments and the results should be with everyone. We have just concluded one another quarter, a lot of challenges also in the same quarter for the industry, for the Polymer industry specifically. But with all the challenges, we have registered a growth not only in the value terms but we have also grown in the sales in tonnage by double digit plus number. The main challenge which we faced again was the PVC price dropped by almost 8% in this quarter and Hiranand would discuss more on this.

Second was that we plan to set up a unit in Baddi and we already bought a partnership firm call **Indo Green 2:09**. But after working on setting up the unit we found the atmosphere of Baddi, a lot of units were closing was not so conducive to keep running a unit and we wanted to exit the area safely and which we did. So this decision gave us a loss of around Rs.1 crores on the books which also we have accounted in the last quarter.

Giving you the scenario of the market which is very important for everyone and especially as Astral brands, we have been growing and we will continue to grow in our Polymer business with all these challenges. There are challenges across the board especially in the payment cycles of the markets are tough, the currency is devaluating in and out, the Polymer is now pretty stable and PVC has started again going up and we expect this quarter the PVC price to rise substantially at least two or three rises we will see in the PVC this quarter.

Against all these challenges, the major thing which Astral and we did was to keep a tight control on our receivables. Actually, we have improved on our receivables quarter-on-quarter this year and that was our motto that not to be carried away by the numbers or business or volumes rather than keep our receivables very tight. That has helped us also in our capital cycle and in this tough scenario we are much better placed off in our own business segment.

So overall there were challenges in last few quarters, one more quarter of challenge, but we have delivered growth in numbers in value and volume and this quarter we expect a good growth in both numbers in value and volume and which is exactly what is going on at present in January we have hit our target numbers, we are marching on our target numbers in February and we will keep working towards our target numbers of growth in value and volume for this quarter.

CPVC specifically is the core business of Astral. Good thing which has happened is that we have got some good support from Lubrizol from this quarter because their plant is now operational and has started delivering material from Dahej. In the Fire Sprinkler also we have started getting major breakthroughs, the projects have started coming, and the sales have started gearing up. Thirdly, the industrial and CPVC or the Industrial division is one of the fastest growing divisions also for Astral. So that is also delivering good numbers of sales in volume. Overall, the CPVC business for Astral is marching in a positive direction. With all the challenges of so many manufacturers who have jumped into CPVC from all the sides, we are growing, we continue to grow, we are working in hand and glove with Lubrizol trying to get the best support from them and trying to push all our brands in the positive.

Our Hosur plant which was operational fully but had to add some capacity. Good news is that from this quarter we have started manufacturing CPVC there. This quarter again we are adding the capacity of CPVC in Hosur plant because we have got the amount of power load which we needed to jack up the capacity from the State of Tamil Nadu. So that plant is growing. Secondly, we have got a permission now to do construction there. We have started construction and we will be centralizing the warehouse facility of south from next year at Hosur and all the four warehouses which we maintain Bengaluru, Coimbatore, Andhra Pradesh and then Telangana will be merged into one warehouse and one facility to manufacture Pipes to deliver the Fittings, Walls and every accessory from the same location. That is what we are doing in the south. North: We have just received the possession of our land that Ghilot next to Neemrana we have taken the possession of the land and we will be unfolding the plants for the location in next fiscal and will communicate to the market as we unfold the plants. In Ahmedabad, the capacity of the Dholka plant is going to be jacked up in next 2-3-months because we recently got the approval after Diwali for the supply to two governments – Rajasthan and Gujarat – Gujarat, we got both for water supply mode and for the Sardar Sarovar Nigam. So these supplies have started in Gujarat. Shortly will start in Rajasthan and this is going to give a good boost in growth in the Dholka plant in coming year. So that is something new which has come up and that is just started and we have started supplies to these two states.

Apart from there, we are working on certain new product lines; the EP Minerals low noise granite system which should be manufactured in-house and launch shortly in next couple of days. That is one more product line in-house manufacture which will be put to market from Astral's table.

Column Pipes which was a product which though we started three years back and this is actually the third and the fourth year, this year we are now seeing good growth and good demand of that product and we have reorganized the marketing structure or marketing this product which is giving us a very positive result from last almost 6-months. We have got the machines from Canada to manufacture Inspection Chambers up till 1000 mm which is operational. We have got the required approvals and we have started supplies to a few projects in different states. The machine just got operational 2.5-3 months back and now it has just come into full swing of manufacturing and all the range which had to be made in the machine is now complete. So it is now offered to the market. We have made a new division for the sales of this product and approvals with the different state governments. That is another product which has been added to Astral's table.

So overall the commitment level or the commitment to growth or commitment to bring new products, the commitment to the challenge of the market, all challenges we are holding ourselves and taking all these challenges and just moving ahead and we keep moving and marching ahead in our core business of Piping.

Just briefing about the business of Adhesives and Sealants. The capacity of Kanpur two plants have been jacked up, we have made a lot of changes in those plants, we have automized the plants, we have upgraded the health and safety requirements of the plant, we have upgraded the technology and we have also taken steps to see that the best product and the best quality of the product and the packaging is also improved at the same time is delivered to the market.

Making the second plant in Ahmedabad is underway. We have started a few products of Resinova in Ahmedabad. In next 5-6-months, the entire range which is made by Resinova at Kanpur and additional range which we are going to bring from Seal It services Seal IT services bought it from UK will be made in Ahmedabad and the Ahmedabad plant will be fully operational and it will also serve the additional growth market which is being generated by the Resinova products. The Advanced Adhesives which was manufactured in Weld-On products is now merged into Resinova and both the companies have become one company as Resinova and we will be taking tax benefits which will start shortly from next quarter onwards. Hiranand will be briefing more on this.

There are certain expenses which also came in Resinova which has taken a hit on our margins especially we went with the branding and promotional expenses which is to the tune of Rs.2 crores till now which have been booked because of the agreement with Mr. Salman Khan to use him as a brand ambassador and the exhibitions we have done previously and we had also to write off a lot of old packaging material which was lying with them. As we had changed the entire packing and gone with the branding and with the brand ambassador, we had to launch new packaging for entire product range and so we have taken a hit on the old packaging materials rather than keep using it for 6-months to 1-year and waste the amount which we have spent for the branding activities. The merger tax effect I think Hiranand ji explain and that would be from next quarter we will be getting this advantage of taxation in the new entity.

The growth of this business of Resinova has improved substantially. That is one of the very big positive signs where they were growing it 14-15% quarter-on-quarter which has jumped to 25% last quarter and this quarter even we would be seeing better numbers of growth for

Resinova and which is actually being registered and overall growth of the company will also improve by the end of the year.

One more good thing has happened is that we have started putting certain products especially Weld-On cement and clans and hangers of Astral which was sold through only Astral distributors and network, have now started selling through Resinova distributors and dealers from last one month and they have shown very positive results of growth and we expect substantial and good growth from these product lines and more product lines as we put them in the channel of Resinova. That is one of the major advantage and positive extension of the business in each other's channels and the partnership.

UK Unit has a flat growth because of certain clients moving to some multinationals which now we are recovering with other clients. Secondly, we had certain changes in our product portfolio so that also has given us lower growth but we expect the same to recover from this quarter and which is actually recovering. So that is there. The margins have improved **(Inaudible) 16:10-** at all so there is nothing of a concern over there and we do not see any concern on growth coming back as normal over there. So these are how the two portfolios are placed – Adhesive portfolio and the Plastic portfolio. I let Hiranand ji brief you on the numbers and then we can take your questions. Thank you.

Hiranand Savlani: Good Afternoon, Everybody. I want to take you through the Consolidated Number first: On Quarter-on-Quarter basis last year the sales was Rs.364.7 crores which had jumped to Rs.411.6 crores, so overall there is a growth of 12.87%. EBITDA has also increased from Rs.35.4 crores to Rs.40.3 crores which is close equally in the same range, 13.82%. PBT has grown from Rs.17.5 crores to Rs.21.82 crores, that is close to about 25% jump and cash profit has improved from Rs.23.9 crores to Rs.29.30 crores, so a close to about 22.42. EPS has increased from 1.16 to 1.50.

Standalone, sales have grown up from Rs.876.94 crores to Rs.903.92 crores, so close to about 3% growth and EBITDA has grown up from Rs.104.45 crores to Rs.114 crores. PBT has grown up from Rs.66 crores to Rs.69.30 crores and EPS growth has gone down from 4.63 to 4.09 because of the dilution which we did in current year.

If you see the breakup of our segment, in the Piping side, CPVC this quarter was 56% and the PVC was 44% which is normal in the same zone which earlier also was close to about 45%. Because of the base was very slow, so in percentage terms.

If you see the Adhesive side, because we have taken the two companies basically part of the year so the numbers are not comparable. But if you see the last quarter number, the sales from Adhesive basket was Rs.97.56 crores, EBITDA was Rs.7.42 crores and EBITDA percentage in this particular quarter has come down to 7.61 because as Mr. Engineer said, that we have taken a hit on this write-off of certain packaging which we have discharged because we are now completing changing to the new branding structure. So this all packaging and all were there, we have to write off that thing and plus we have incurred a substantial cost for this new division participation like… many of you might have visited the Astral fairs, you can see the Resinova store and similarly we have signed Mr. Salman Khan for the brand ambassador, so that cost has been also absorbed. So because of that it has gone down, but on a yearly basis we are very clear that we will be delivering double digit plus growth on a yearly basis into the Adhesive site of the business which last year was 9%. Earlier also said that we will be improving 1-1% margin every year into the EBITDA side after absorbing the additional branding cost and whatever the other costs are there. So this year also we will be delivering double digit plus growth into the Adhesive side. PBT side this quarter was close to about Rs.5 crores.

One good thing that Gujarat High Court has given the approval to the merger of the two entities that is Advanced Adhesives and Resinova which we intimated to the stock exchange. But that time the final scheme was not being approved, just it was a prima facie approval. So now officially they have approved. So tomorrow after completion of this board meeting, tomorrow, we are going to intimate to ROCs so that from tomorrow onwards the Scheme will be effective. With that which we earlier also in the last concall we communicated that our tax rate will go down substantially. So in the next coming quarter you will see that the Adhesives side of business, the tax provisioning will substantially drop. Almost I can say zero provisioning will be there to the income tax because of this merger tax advantages. So a lot of writeback will be there into the next quarter. When the next quarter results will come you should not get surprised that all of sudden what happened that the company's tax rate has become zero and this write-off has increased because this amortization will start from the next quarter onwards.

So, with this I am concluding my financial side. I can only say that right now the ride is going bumpy, one month it is showing very good number, all of sudden one month it is coming down because of last quarter if you see because of Diwali the November number was not up to the mark, but December was good. So still uneven month is going on into the system. Mainly what the sense we are getting that the dealers are still skittish about the inventory side, but once the Polymers will start on upward journey, then the dealer community will start taking the inventory with them and then we can see abnormal number of growth may come which we can see in the January numbers also, like January Astral value terms have grown more than 15% which is very abnormal growth. We do not know whether it will sustain in the coming quarter or not. Similarly, Advanced Adhesives has grown by more than 100% in January; similarly Resinova has grown by more than 25%. So these abnormalities going on into the system but I think sooner or later it will settle down, now crude is also more or less trying to settle down between 30 to $35 kind of a range. So now the downward journey of PVC will end. CPVC has taken a hit in the last quarter which was not there in the earlier quarter. CPVC prices also dropped by 7-8%, similarly, PVC prices also dropped by 7-8%. So because of that inventory hit we have taken in the last quarter which was closely to the tune of around Rs.8 crores kind of level and plus Rs.1 crore approximately we have taken a hit for coming out from the new unit which we were supposed to put up in Baddi for the tax benefit advantage but because of looking to the situation of Baddi, we have finally taken a call that we want to withdraw, that was a rented premise, so whatever the rent we paid for the few months and some expenditure also, all we have taken a hit in this quarter. So this abnormal Rs.9 crores being taken hit in the quarter because of that the EBITDA margin has dropped to 10%. But if you see on a nine-month basis, there is improvement compared to the last year after taking that much hit also.

Now, I am opening up for the Question-and-Answer Session.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Umesh Patel from IDBI Capital. Please go ahead.

Umesh Patel: A couple of questions from my side; just wanted to know what was the revenue mix between Replacement and Fresh demand during the quarter?

Sandeep Engineer: Once we sell we cannot judge that the distributor has bought and it has gone through the retailer, has gone for replacement or a new application but generally the dealer sale which happens, half of them goes for Replacement, that is generally there, so I think 20-25% goes for Replacement.

Umesh Patel: Any price revision during this quarter?

Sandeep Engineer: PVC went down above 5% and raw material go down but the real effect will come from this quarter but we do some corrections of 1-1.5% on the pricing.

Umesh Patel: Sir, can you give me a figure of your Adhesives business last year Q3FY15?

Hiranand Savlani: Last quarter what was happened that it was not a full consolidation, so we do not have that number handy with us, but if you want to know you can call me separately, I will jot down that number and will give it to you because last year the full quarter was not available to us because we acquired this company in November because of that we do not have a comparable number exactly with us.

Umesh Patel: As you mentioned rightly earlier that Lubrizol has already started providing raw material, right, so can you tell me how much material that we got from the local market during Q3?

Hiranand Savlani: Q3 was zero because Lubrizol has opened up the plant on 20^{th} or 29^{th} of January. January end we have taken some material but now February onwards this local material will start flowing first.

Umesh Patel: So how much commitment they have provided to us as of now?

Sandeep Engineer: At present they say about whatever our requirement (+50%) will come from here and maybe around 30-40% we will have to import.

Umesh Patel: So how much cost saving that we are expecting in the next year?

Sandeep Engineer: One is the currency risk gone completely because it will be billed in rupee. Secondly, the price wise as they started this plant in Gujarat, they have brought down the price by almost 3-4%.

Moderator: Thank you. The next question is from the line of Gaurav Maheshwari from Unilever. Please go ahead.

Gaurav Maheshwari: A couple of questions; first one pertains to the Astral Wire Guard business. So if you can just give a number as to what is the size you have reached on to that and also if you can just give some idea on the Astral Irrigation Pipes that we recently launched as to what is the size that we reached so far?

Hiranand Savlani: We do not have the individual product number, but we can say that the Wire Guard business has started picking up. Compared to last quarter this quarter was better quarter. Because of the competitive activity, I think last 2-3-years we have stopped giving individual product numbers, but we can only say that both Agri and the Wire Guard both business have shown the improvement.

Gaurav Maheshwari: Just wanted to gauge the success of these two products?

Hiranand Savlani: Because base is low, so growth was around 50%. It is not comparable because the base is very-very miniscule at this stage. So giving you the percentage growth will be a misguiding but we can say that business is growing. So we are expecting positive thing. As Mr. Engineer said that now the state governments are giving approvals like Rajasthan and Gujarat have given us the approval for the Agri and all, so that side also a bigger ticket order will start flowing. Already one order of sizeable quantity we have received. So we are expecting that a good number of order may flow to us in the coming days.

Gaurav Maheshwari: Second question pertains to the CPVC, PVC mix. Even if we adjust for the Rs.8-9- crores that you said is a one-off there is still a dip of around a percentage on the margins. So, are these newer products which have been introduced as lower margin products that is what is leading to the margin fall or is it just a one-off kind of a thing?

Hiranand Savlani: If you see that the standalone basis, the top line is close to about Rs.319 crores. Rs.9 crores write-off work out to be roughly about 3%. So right now our EBITDA is close to about 10%. So if we adjust 3%, then it will be close to about 13%. History say that our last quarter is always peak in volume which is almost more than 50% jump compared to the Q3. So now suppose this quarter is roughly about Rs.320, so last quarter I am talking roughly close to about Rs.475-500 crores. So the expenditure absorption fixed cost will be there, so that quarter will give the more margin. So yearly, normally you see history, we deliver around 13-14% kind of EBITDA margin. So it will be working out to be the same zone only. We do not see any problem into that.

Gaurav Maheshwari: Last question pertains to this Lubrizol plant which has come in now. So what would be the savings in terms of the working capital because we do not need to hold larger inventories now

I am presuming? So whatever the quantity was lying in the shipment and the transit, so that would be safe now. So if you can quantify in terms of savings on the working capital?

Hiranand Savlani: If you see this year will not be a substantial because we already imported. FY17 yes. I think at least you can presume Rs.60-70 crores minimum saving on the inventory level.

Gaurav Maheshwari: Right now we presume only 50% of our requirement will be met by …?

Hiranand Savlani: Lubrizol has a capacity more, but they are saying initially they are also settling down the new plant. So they have said that initially 50% will be there. But we are of the view by next year end they will be improving into that side also. So maybe one year down the line they will be able to give us almost 75-100% of our requirement.

Gaurav Maheshwari: So within two years' time our FOREX should go away from a translation which will be there because of Seal It?

Hiranand Savlani: From next year onwards, you will see there will be a substantial drop into that.

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

Ritesh Shah: Sir, would it be possible for you to give some more color on the receivable days specifically for the projects which you are bagging from the state government?

Hiranand Savlani: We do not directly deal with any of the government, so that is the policy of the company, we do not supply to any of the government, neither CPVC, PVC, Agri. So we always try to keep the intermediary and they take the risk on the government side. We collect money from them.

Sandeep Engineer: These are the approvals which you go and get as a product from these boards. The contractor when they take these contracts to do these work they have to buy those boards only and we strictly take 10% advance from the contractor and all payments have to be done advance then only we deliver material and we already have got orders worth of Rs.10 crores in last month and deliver the material to these contractors, but 100% advance, we do not just give a single rupee credit on this line.

Ritesh Shah: Are these projects anything specific with the government schemes like Affordable Housing or are there specific schemes wherein you are seeing some uptick in demand or is it more general real estate?

Sandeep Engineer: It is not specific, but these are water distribution projects which are actually very huge like (SSNL) Sardar Sarovar Nigam in Gujarat needs 25,000 Kms of Piping in next 1.5-years or something like that which is a broad base number when we had meeting with them and the Water Distribution Board of Gujarat also keeps buying Pipes. So these projects of distribution of water or sanitation or hygiene and all are going on within the government and the contractors then bid and take these contracts to supply, execute, everything is done by them.

Ritesh Shah: So we are quite hopeful on these incremental orders which come from the state government?

Sandeep Engineer: Yes, because we were never participating, the government itself called us and said that we are feeling shortage of supplies and you being the local company should help us to come out with major supplies, it was done with a very good high level interaction and I think it is giving some positive signs for us. That is all incremental business which is going to help us in a big way.

Ritesh Shah: Sir, on the UK operations, you said the market is flattish. You said that some products have been taken away by competing MNCs. If you could provide some color on the landscape?

Sandeep Engineer: Actually, we were buying a few products from the companies and branding it and selling it to the market and those companies were acquired by huge corporate. So, we are now starting our own production of these products. So these products were overnight gone from our buffets and which really created some gap. Now, we have taken a conscious decision to sell more of all the product lines which are made by us rather than doing all these buying products and then branding and all. So, that is all corrections are underway and this really gave us a little hit on our growth line, but anyway it was done at the right time and the right correction have been in place. So we do not see any issues from this quarter on this side.

Moderator: Thank you. The next question is from the line of Avnish Chandra from East India Securities. Please go ahead

Avnish Chandra: Sir, first question in the opening remarks, you said that you had double-digit. Can I have the exact sales volume growth number?

Hiranand Savlani: We do not have exact number because we are giving the production number only. I think in the press release we have already given. Last year first nine-months it was 49,690 MT, this year it is 55,289. So precisely it is 11.27% volume growth.

Avnish Chandra: In the Q2 like you had given this sales volume growth of…?

Hiranand Savlani: That also we said approximately because till we are working into the conversion of sales quantity because we are selling into the pie in the meters and pieces, we are working on that, last time also we said next year onward we will give the quarterly based sales number and the production number, but this year still we are working and we are very close, so maybe next quarter year end we are going to give both the number and from then onwards every quarter you will be receiving the sales and the production number both. 17,809 was the last year third quarter, this quarter is 18,463.

Avnish Chandra: You said that the price decline were both in CPVC and PVC around 8% in the raw material side. Final product price?

Hiranand Savlani: Final product may not be that much because currency has also equally depreciated and secondly this pass on take place with a lag effect.

Avnish Chandra: So in CPVC final product side approximately price decline?

Hiranand Savlani: Maybe a couple of percentage. PVC 5-7%.

Avnish Chandra: We had Seal It in third quarter FY15, right, a complete number. Can I have Sealit top line both third quarter FY15 and '16?

Hiranand Savlani: This was around Rs.35 crores last year, this year it is around approximately Rs.32 crores. On a nine-month basis I have to check that number, I do not have handy number, but I can share it to you, maybe tomorrow you can call me, I will give it to you.

Avnish Chandra: We understand that you are working hard for Blademaster. Any update on that?

Sandeep Engineer: Blademaster I think now we are getting a lot of approvals of the state and we have started getting good projects, things have started seeing a lot of positive signs and this year I think we should be gearing up for a good set of numbers from this product line.

Avnish Chandra: So FY17 onwards we will have Blademaster?

Hiranand Savlani: We have now our own fittings also which we are importing till date. So that was a costly affair for us because we did not have any fitting approval UL or ISI. Now, all our fittings 20-days or 25-days back have been approved by UL Laboratories in US. So all our fittings are approved to be used for Fire Sprinkler application. So fittings are now being made in-house and sold from India itself. Till now, we are importing Fittings from United States of America.

Avnish Chandra: Any indicative number for FY17 from this …?

Sandeep Engineer: We can give you indicative number in our analyst gathering after the fourth quarter number.

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

Maulik Patel: You mentioned that we have a double digit volume growth in this quarter?

Sandeep Engineer: Yes.

Maulik Patel: So the overall realization growth was significantly lower by as you said 8% is a decline in the revenue?

Sandeep Engineer: Realization PVC went down by 8% this quarter.

Maulik Patel: Is there any decline in realization in CPVC in the USD term?

Sandeep Engineer: CPVC also went down by 1.5-2% or even a little higher in certain regions because the CPVC price did come down, but it hit on our stocks and all because we carry inventory cycles.

Maulik Patel: Sir, in your opening comments, you mentioned that the real estate is facing liquidity issues as we all know that and apart from this deflation in Polymer prices. Have you seen any kind of the new project launch coming up in a big way, is that happening or is still going to be further lower in terms of opening a new project launch?

Sandeep Engineer: It is a region-to-region specific. I personally feel there have been new project launch is coming in certain regions; south is I think gearing up for certain new projects; West is also showing positive signs especially Rajasthan is moving better off; we are getting good positive results even from North. So I do not say that it is something which is so panic that everything is standstill. There are certain positive signs which I see from last two-three months in the segment especially.

Maulik Patel: How do you see the competitive environment because we keep hearing that a lot of new players are coming into CPVC, a couple of the small players have made a tie up with other global CPVC players like Sencorp?

Sandeep Engineer: To be very frank that CPVC is the most talked about Polymer today of India. It relates to the history how Astral has grown and other companies have grown too together. So the quality is going to play a big issue in this segment and that is the key factor to the whole of this Polymer. There maybe 80, 90, 100 players today but delivering of the product because it is a high pressure temperature application which is very important. I do not deny that people cannot make those qualities, but especially the material from China is still to be proven in a big way. Secondly, Japanese material maybe good but the manufacturer who makes the compound the best one has to do work on it, has to be with the best compound with all the quality issues in the consideration. There are challenges around. I cannot say that we do not have challenges. At the same time, the quality or the consistency or the deliverability of Astral is far more better compared to the competition in the market because we are the only company still sustaining the NSF approved product, nobody in India still has got NSF approved product in CPVC in the Indian market. It is one of the highest benchmarks with ISI, NSF and WPC-1 also is a very high accredited approval from United States. These approvals whether you use anything you can get it, but then you have to make the best of the formulations, you have to deliver the best of the product, consistency has to be maintained, a lot of factors come into effect to deliver the quality of a product.

Maulik Patel: Last question is on Adhesives side of the business. First, what we have done is basically the packaging and setting up this Ahmedabad plant. As you also mentioned that the new products will be launched. But what about the dealer ramp up and the growth coming from the projects side of the business where we are little weak compared to the other competitors, so how that side of the business, what is the strategy on that side?

Sandeep Engineer: The dealer network and the distribution set up of Resinova is much strong. The weakness of the dealer set up was the thing is there in some of the south states which I should not deny. But in south again, Astral is so strong, so we are getting foothold of these regions very fast. The challenge was Resinova growth is jacking up the capacity which was there when we got this unit was planned and made only to give 10-15% growth and just to suffice that capacity. Now, there are two capacities in Adhesives business, there is not only one capacity with lower capacity calculation, you may feel a lot of capacity is ideal, but manufacturing capacity maybe huge, but the packaging capacity has to match the manufacturing capacity and the material to be delivered in the market. The bottleneck is major comes in the packaging capacity mostly in this because so many variants of packages are there; 5 ml, 10 ml, 20 ml, 30 ml. The product maybe the same. You can make maybe 100 tons of product and keep it, but how to pack that small-small volumes and deliver those small volumes is the biggest challenge of this whole business. That is where we are increasing our packaging capacity and automizing the packaging capacity. You can see that with the increase in the capacity automizing, working on the plant in Ahmedabad, all these things, the amount of growth which was consistent with Resinova has almost increased by 10, 15% on quarter and then we are already targeting substantial growth as the capacity and the range gets completed. I do not see that we are not moving in the right direction nor we are doing anything wrong, it is a new business, but at the same time the business targets the same audience, same dealers, the same construction industry and at the same time we understand the business; we are manufacturing solvent cements from almost now 6-years. We have been in chemicals business for almost 25-30-years. So reactor is not Greek and Latin for us nor if you go to tell you this chemical or that chemical I can immediately understand what exactly this chemical is going to do or how the Formulations are being made. We are digesting the business in a better way and a faster way and trying to work around it.

Maulik Patel: Is that kind of fair assumptions the growth rate in next year could be much better in Adhesives business?

Hiranand Savlani: Even now we have already started growing. If you remove the UK part the Indian both subsidiary Resinova and Advanced Adhesives this quarter has fairly done well; 25% kind of growth is there because UK has not delivered, that is why on a consolidated basis you feel that the numbers are not up to the mark. Similarly, I mentioned in my initial remarks also that in the January month also Resinova is growing (+25%), Advanced Adhesives is growing at (+100%). So they already started growing. Even you can check from your market also, still Resinova products are in a short supply. Mr. Engineer has rightly said that packaging is the biggest constraint. Now, our new automine machine is coming next month, it has already moved from the supplier, we are importing that machine. So that will come next month and our packaging capacity will jump up big way. So in coming quarter also, we are seeing a sizeable growth coming into both Resinova and Advanced Adhesives in a big…

Sandeep Engineer: We are buying multiple levels of machines and we are doing a lot of work on that because that is not only one product which we have to pack, we have to pack multiple products. I would invite everyone to see the plant, give me 6-months and then you will really understand that what hard work has gone into this plant and what exactly has happened and how speedy the things are happening at our end. We are creating a state-of-the-art facility in Ahmedabad and the same facility is equally duplicated at Kanpur. So a lot of changes are happening. At one go we are doing a lot of things. So maybe some EBITDA have effect here or there but our target is to march towards the growth and march towards the range of products and march towards the availability of products can create a brand awareness of Resinova clubbed with Astral.

Hiranand Savlani: Maulik, you have not visited the Kanpur facility and all, but there also in last one year we have spent sizeable amount for the beautification of the plant, safety of our workers, and so many other things which we are doing which is right now it looks like it is a costing and is going to affect our EBITDA and all these things, but we are not looking for a number with one year point of view, we are looking for the number next 5, 10, 15-years point of view. So all these initial things we have to do, then only we can go into the consistent growth of 25-30% kind of zone year-on-year basis. Without we cannot do all these stuff.

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

Bharat Shah: Did you mention how much was the packaging cost write-off?

Hiranand Savlani: We said that packaging and the branding and all put together was close to about Rs.2.5 crores kind of thing.

Bharat Shah: What I fail to understand is why is the raw material cost rising so rapidly in this situation? Raw material cost as a percentage of sales is up almost 4% from September to December quarter. That is something which beats me.

Hiranand Savlani: We said in the initial remark that the PVC price in last quarter had dropped by 8% and PVC is close to about 45% of our revenue. So that is directly going to hit my RMC. Secondly, CPVC cost has also gone down in the last quarter on the raw material side. Right now we are in a downward trend of this crude. So, Polymer price is on a downward trend. Now from January onwards we are seeing there is a upward trend started first 2.5% or 3% rise has taken place in the first week of January. So now I think PVC price is moving towards the bottom cycle. Now the seasonal months have already started. So if now the trend reversal will come into the Polymer side which is very-very high likely because that is the only price rise has come but the kind of reliance situation is there in the market, if they are running with a very tight supply I can say, today only my plant we have to buy from some other companies also. So now looks that the PVC has bottomed out then you will see that similar kind of reversal cycle also because inventory cycle is like that, we have to maintain certain inventory into the system, that will continuously up and down will go but now the bottom end cycle we see that is over from the PVC point of view. So you may see all of sudden if the Reliance increase 2, 3x price 7-8% then all of sudden jump you will see into the margin in the coming quarter also.

Bharat Shah: I did take into account the fact that price of the raw material would have caused an impact. You say Rs.8 crores was the inventory loss but that still accounts for just 2% of the sales?

Hiranand Savlani: No, it is 3% of the sales. If you see Rs.8 crores is one and Rs.1 crores we have done the write-off, totally Rs.9 crores we have given effect to that. So On Rs.300 crores roughly around 3%

kind of things is that. Similar situation was in the last year similar quarter, if you see last year Q3 RMC was close to about 76%, now it is close to about 74%. Because that year also we took a huge hit on the PVC because PVC price dropped by 12% in Q3 last year.

Bharat Shah: There is still some confusion maybe in my understanding. The consolidated turnover is what I am talking about which is about Rs.412 crores in the current quarter. Now, when I see compared to September quarter of the current year, where the raw material cost as a percentage of consolidated sales is 67.8% which has moved to 71.8% in the December quarter. So on the consolidated turnover which was Rs.403 crores in September which has moved to Rs.412 crores in the current quarter, the raw material swing has been more than even the sales?

Hiranand Savlani: Yes, but consolidated Adhesive side the margins are low, so there the element of RMC is more compared to the Pipe. If you see the Adhesive side of business there the EBITDA is hardly 9%, this quarter it is 7.5 or 8%.

Bharat Shah: No, I am not talking about EBITDA. I am talking of the raw material as a percentage of the consolidated sales. In September quarter also, this business was included, where our consolidated raw material cost as a percentage of sales is about 67.8 which has increased by 4%. Now Rs.8 or Rs.9 crores loss that you talked about in inventory and some amount on packaging write-off is about 2% of the consolidated sales. Still raw material cost is up full 2% more in the current quarter compared to September quarter of 2016. That is something beats me. Why it has gone up so high?

Hiranand Savlani: Also, there are effects sometimes on the market conditions and realizations in the project which may have taken a percent or 2% hit because the market dynamics are changing and certain times you have to take certain big projects at certain costs. If you want we can do a complete breakup but major effect is raw material. At the same time there may be a part effect on the market conditions also.

Bharat Shah: So apparently higher raw material cost is because of the sales price…?

Hiranand Savlani: Sometimes what happens that you may have the raw material but the price falls. In PVC there is immediate effect and immediate rise. You cannot quantumize exactly how much went towards these stocks and how much went towards that. At the same time CPVC prices did go down for all the other suppliers, not only us, Lubrizol acted, but if we have inventory, so for us it will take some time to give, but sometime we have to give certain effects to the market. So that all couples together. But what happens is the better part of this is that this quarter we have seen very positive signs of PVC recovery, at the same time stabilization of CPVC price at the best level Lubrizol has done in the market. These two things are going to be a great help for us. Secondly last quarter, we really had a tough time gearing around a lot of festivities, still we did it because Navarathri comes, then comes Durga Puja, then comes Dussehra in the South, then comes Diwali. So everything is coupled. Last quarter is always a festivity quarter. That also takes lot of toll for us in the growth. Thirdly, what we have been very-very careful and we can even put good sets of growth numbers and things. But the main challenge for us is always recovery and we have never slipped ourselves to any distributor, any type of projects or any good talks or things that give me credit. We have been more tighter and more strict on our receivables and we have improved actually; by about 10-15 days. That was one of the most tightest things which we kept this whole nine months and we want to continue on this level.

Bharat Shah: Working capital would have been a source of cash release?

Hiranand Savlani: We are mentally prepared that even if 1 or 2 or 3% growth we have to sacrifice we will sacrifice, but we do not want to extend the credit. Normally, what happens is for the sake of getting the business you have to sacrifice somewhere into that side. But this time we have internally taken a call that in this tough environment if we start losing our hand, the distributor community will immediately come to know from one or other way. So it is going to affect us in a big way. We decided not to support into that side. Better 1% or 2% growth may go away but that side we were very clear we will not support.

Bharat Shah: Can I assume that in December quarter your cash release from working capital would have improved…?

Hiranand Savlani: Receivable side, yes, it is improved. Inventory side will improve in the last quarter because these are the seasonal quarters for us, like I told you that this quarter Rs.319 crores we have done and next quarter that is March quarter I am expecting any number between Rs.450 to 500 crores. Naturally inventory side working capital substantial reduction you will see in the fourth quarter, and secondly, Lubrizol is going to help us. So further cut you will see in the June quarter. I am expecting that our inventory level should support us minimum Rs.70 to 75 crores.

Bharat Shah: I heard that and that was my question. Sandeep bhai mentioned that in 2016-17 almost about 50% insourcing of the material locally would occur, at year end we hope to raise about 100%, in 2017-18 almost entire amount of the material will be insourced locally and he also mentioned that Rs.60-70 crores of the savings in inventory cost would occur by 50% insourcing through the year. So are we to assume that this Rs.60-70 crores is yours to keep and accrue in the balance sheet?

Hiranand Savlani: Yes.

Bharat Shah: So this entire amount of saving will go towards profit & loss account?

Hiranand Savlani: No, it will not go the profit & loss account but it is going to save your interest cost and other things.

Bharat Shah: So you are merely saying that it will improve the working capital?

Hiranand Savlani: Yes, naturally, because how can it improve my profit?

Bharat Shah: But you also mentioned that there will be some savings in the sourcing cost itself?

Hiranand Savlani: Sourcing cost we say that Lubrizol is going to help us by way of reduction into the price because they have now put up a plant in India. They have already started reduction into the price and that is what we have taken a little hit into the inventory side. First stage they will give a hit to the inventory, then second stage it will improve your things.

Bharat Shah: How much is the savings expected on that account?

Hiranand Savlani: I think saving effectively margin level if you consider it can improve 1% or so into the EBITDA level.

Bharat Shah: You mentioned that EBITDA for the year is in entirety, should be getting back to the territory that you wanted to be of about 13-14%. That means nine months has been about 12.2%. So that means for the fourth quarter is to pull up the entire year to bring to that effect?

Hiranand Savlani: '13 to 14 I am talking about to the Pipe side, not the consolidated because Adhesives side EBITDA is low; Adhesives side last year it was 9%, this year will be 10%, next year will be 11%. Every year we are trying to increase 1%, 1% kind of EBITDA into the Adhesives side. Piping we normally work into 13-14%. So that zone will continue into the Piping. But this year because we have taken a hit, we have to see how the Polymer pricing is supporting us into the last quarter. If the Polymer trend starts reversal like first reversal we have seen in the first week of January into the PVC side. Now if a couple of reversal will come in the balance 2.5-months' time then yes, we can be in a position to maintain that kind of zone, otherwise there maybe a little bit here and there.

Bharat Shah: What has been the Piping business EBITDA separately for the nine months?

Hiranand Savlani: Nine months was around 12.06%.

Bharat Shah: So that you are saying for the entire year would go to 13-14%?

Hiranand Savlani: Yes.

Bharat Shah: That means fourth quarter is to do heavy lifting to build up the average for the entire business?

Hiranand Savlani: One advantage will be available to us because of this fixed overhead, because other expenditure, the employee cost, everything will be absorbed at higher level because right now it is 300 something, next quarter will be 450+. So naturally it is going to help us into the EBITDA side.

Bharat Shah: I quite understand that there is a lot of hard work going on, I understand there is a challenge on the external environment especially in the real estate side, I also understand that the Adhesives business is being now built from scratch because it is an acquired business and a lot of nuances need to be sorted out. But we have spent good money to buy these assets and ultimately translating to acceptable growth in the business and more importantly into the cash flows. What stage do we think all our dreams and aspirations will actually coming more reality…?

Hiranand Savlani: We have to give another one year time and that is why we are not overenthusiastic to give the big ticket guidance to you. We have clearly said that every year we are going to increase EBITDA by 1%, 1%. This year after taking so much of hit or you can say Branding side, you can say write-off of Packaging, whatever you can say, absorbing the new cost of Branding, still we have improved 1% margin on nine-months basis compared to the last year nine-months. We are trying to improve that side. At the same time, we have to see that our branding initiative should start now, then only we will be able to sustain 25-30% kind of higher territory of growth in the coming years. We have started first step. So that will take another one-year time to move to the entire market because still we have not brought the new products of UK and everything into our card. Because Ahmedabad plant is under installation of machines and all these things. So it will take some more time. Once this complete basket will be ready may be 12-months down the line, then you can see the real fruit will start flowing. Till that time we have to keep patient and at the same time we cannot jump in into everything. We are also understanding each and every segment of the market, where we can grow fast, where we can grow slow, where we can bring new products. These all exercise is going on. So we will take one year. Then I think things should settle down. That is what we are targeting internally. There may be a plus/minus.

Sandeep Engineer: Bharat bhai I said things are settled down, things are rosy and the fruits have started coming. Work is going to go on if we finish today, tomorrow also, day after also but this growth which is coming, the brand which is extending, where the things are moving, I see the real green is open, it is nothing that we have to wait for something. These are all things which are a part of any industry. Even if I become Rs.1000 crores of Adhesive I will have to put two plants grow, even plastic we are putting two plants, but for me I am saying this is the things which we are doing in the right way and a lot of things have been done. It is not that Resinova was a scratch and we have just pulled something. I personally feel the greens are wide open and these are all marching towards goals and new goals and it will be set and things are moving in the right and positive direction and they were moving. We have just added ourselves to march it faster.

Bharat Shah: So after the dust is settled, **(Inaudible) 70:39** fit it in a few months' time or about a year, should we say that our sustainable Adhesives business growth will be (+20%) and for the Pipes business somewhere in the range of 15-20%?

Hiranand Savlani: Shortly we can say like that.

Sandeep Engineer: Very much, not an issue at all.

Bharat Shah: I hope that we are not more optimistic than the realities of the business?

Sandeep Engineer: No, I do not think so.

Hiranand Savlani: Even last year if you see both the Adhesives business of India has grown 25%.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Two questions; one was you said that the price of CPVC, Lubrizol helping you by 3-4% and that will be some saving on the duties as well because we used to import. So total savings will be 8%-odd?

Hiranand Savlani: It will be gradual, it cannot be from the day one, like first stage they dropped the price by 7% or so, now second level of support we have already started talking to them and slowly and gradually they will keep supporting us. They will also run the plant, they will also understand the saving and exactly what they are getting the benefit. We are expecting that in coming quarter also they will support more to us.

Sandeep Engineer: For the last quarter they reduced by 3% to 4%, this quarter they have reduced by 5% to 7% and then now I think we will have to wait for a few more months. Once they come into full swing then we can again get some more reduction.

Ravi Mehta: How are the payment terms? Earlier we used to get a credit. So now …

Sandeep Engineer: The same continues.

Ravi Mehta: One clarification on the volume growth front is that the production numbers what you have given that actually shows YoY growth of just 3.7%.

Hiranand Savlani: Last quarter it was 24% something.

Ravi Mehta: Double digit is very different?

Hiranand Savlani: Nine months basis it is 11.27%, it is double digit only, sales is also moving more or less, quarterly basis plus and minus will be there, but on a yearly basis if you see it will be coming out to the same number only.

Ravi Mehta: The reason I am asking is that we were having inventory that we were able to sell double-digit…?

Hiranand Savlani: Last quarter the production number were very high.

Ravi Mehta: We had inventory hit of Rs.9 crores on the lower PVC prices?

Hiranand Savlani: Rs.8 crores and Rs.1 crores was close to about closure down of our unit in Baddi which we put up.

Ravi Mehta: Tax provision is low, you explained that the benefit of merger will come from next quarter?

Hiranand Savlani: Next quarter there will be a reversal of Adhesive tax provisioning which we have provided on nine months basis. For next quarter corporate tax will substantially go down.

Ravi Mehta: But even for this third quarter, the provision has actually been lower compared to what we see in first two quarters?

Hiranand Savlani: Quarter-on-quarter basis fluctuation will be there which I communicated in the last concall also that yearly basis it will come down. Some quarter what happened is depreciation benefit you will get, some quarter MAT provisioning will be there, some quarter something will be there but on a yearly basis, we last time also communicated that you should consider 25% to 27% kind of.

Ravi Mehta: The government orders what we get, is it safe to assume the margins would be a little lower or if you can …?

Hiranand Savlani: Compared to CPVC, yes, it will be lower, but the thing is that these all are the products where the machine process very fast because these are all the higher dia pipes.

Sandeep Engineer: The thing is that the process is fast and then you can pump in lot of tonnage and we are rotating this money on cash. That is one of the major advantages.

Ravi Mehta: These are all PVC products?

Sandeep Engineer: Yes.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Priyank Chandra for his closing comments.

Priyank Chandra: Thank you. On behalf of Dolat Capital we thank Mr. Engineer and Mr. Hiranand for taking out time for the call and we also thank all the participants and hope the call was fruitful for them.

Sandeep Engineer: Thank you, Priyank. If anything we are always available and you can always send us questions, call us me, Hiranand or anyone.

Moderator: Ladies and Gentlemen, on behalf of Dolat Capital Markets that concludes this conference. Thank you for joining us and you may now disconnect your lines.