"Astral Poly Technik Limited Q2 FY2018 Earnings Conference Call"

November 14, 2017

ANALYST: MS. SHAZIA KHAN - NIRMAL BANG INSTITUTIONAL EQUITIES PRIVATE LIMITED

MANAGEMENT: MR. SANDEEP ENGINEER - MANAGING DIRECTOR – ASTRAL POLY TECHNIK LIMITED
MR. HIRANAND SAVLANI – CHIEF FINANCIAL OFFICER - ASTRAL POLY TECHNIK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Astral Poly Technik Limited Q2 FY2018 Earnings Conference Call hosted by Nirmal Bang Institutional Equities Private Limited. As a reminder, all participants' 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 entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shazia Khan from Nirmal Bang. Thank you and over to you Madam!

Shazia Khan: Good evening everyone. On behalf of Nirmal Bang Institutional Equities, I welcome everyone on the call. We have with us the management of Astral Poly represented by Mr. Sandeep Engineer – MD and Mr. Hiranand Savlani – CFO. I request the management to give us the opening remarks, post that we will open the floor for question and answer. Over to you Sir!

Hiranand Savlani: Good evening everybody. Myself, Hiranand Savlani – CFO Astral and with me Mr. Sandeep Engineer is MD of the company to give you the overall view, Mr. Sandeep Engineer will speak first and then I will update you about the financials of the company and then we will handle the question and answer session.

Sandeep Engineer: Good evening everyone and thanks for joining us for the concall on the last quarter end and the half year ending for Astral business on pipes and adhesives. As we all know that the first quarter because of GST was full of challenges and whatever the growth challenge was there was overcome in the last quarter and we have given good numbers of growth both in the value terms and in the volume terms.

Mr. Savlani will go through numbers as he presents them, but the market was bullish on CPVC. We have had good growth in CPVC business. At the same time, PVC business has also grown. All the PVC products have grown and also our agri business has also shown a substantial growth in PVC. We have also grown in our column pipe business in PVC and rest of all our PVC products has shown good growth.

CPVC which is the forte of Astral has in last quarter delivered a good growth in plumping sector, in industrial sector of CPVC and we have also bagged orders in the fire sprinkler systems of CPVC. So all our CPVC products in plumping, in industry and fire are now selling in the market, well established having all the approvals needed in the market and we have approvals beyond the need of the market, which Astral always has in NSF, UPC 1 and ISI.

New plants which we are working on at Hosur and capacity expansion is going on, we are building a new plant at Rajasthan, we are expanding the capacity at the Santej plant and the work of expansion is online. Rajasthan plant should be commencing the trial runs in the month of January, I mean February we will have the plant up in running with full capacity. The building work is almost under completion. Machines will start coming from the month of November, December. So we are on track on the Rajasthan plant.

The Hosur plant, which we are expanding, is little delayed. It is delayed by one and one-and-a-half months because of excessive range in the region especially Bengaluru has received continuous rain in last month for almost all the days in the evening and which delayed our construction work at the Hosur plant. Now the work is in full swing and we are optimistic to start the plant by March and by April, it will be in full swing and the capacity will be almost double. We are going to make all fast moving fittings to in the south plant at Hosur. We are getting almost 25-30 injection moulding machines in phase I.

With this, we will have the south facility making all the products agri column, CPVC, and the drainage and sewage product and a few fast moving fittings, which will give a great leverage and boost to expand the south market further. We are also undergoing an expansion at Hosur, Santej plant where we are doubling our column pipe capacity and that expansion should also be completed by the month of March, so from April we will be able to use the capacity, the additional capacity of column pipes or the borewell pipes which we make, where we are almost utilizing our capacity to 95%-100%. So that is major expansion going on Santej plant

Apart from Santej we are also going to add a few injection moulding machines to at the capacity in the fitting. Also we are adding injection moulding machines at Dholka plant, first to make our turbine rings, ceiling rings which we make in house, we are getting around 7 to 8 machines for that. We are also getting a huge number of moulds at the Dholka plant to complete our agri range. So by the month of March, we will be having every fitting available in the market from our competitors and from the presence in the agribusiness to complete the range of all the pipes and the fittings from the Astral staple. So we are going on a major expansion in completing the fitting range expanding the capacities, expanding the range.

Also we are working on a few new product lines, which should be up and running in next six to eight months especially in the drainage and sewage field. Also we are working on the new product lines in the water distribution thing. We are also working on new product lines in clean water distribution. So projects are on to launch a few new products in coming six months to one year from Astral. The PP mineral filled drainage system which was made one and a half years back from Astral is now fully established, we getting good orders, good growth and many of the new projects, which are coming up throughout India, have started recommending and using a PP mineral filled drainage system.

Here also we are adding a few more fittings, which are needed as per the India conditions, which should be needed, and the moulds will be received within a month and will be making these fittings before the month of March. We are also adding a few sizes, which internationally are not needed, but needed in the Indian market to give expansion to the range of product line available from the PP mineral filled system.

We have also recently launched our cross-linked polyethylene foamed insulation system, so we will be the first one to launch this foam insulation system from cross-linked polyethylene, which is there in the market just launched a week back and will be available in all the sizes to the market. We will be the first company to launch a high technology insulation system for our pipe. So this also given an expansion to the usage of Astral pipes.

The piping business has registered a good growth and we see very optimistic future for CPVC in coming months and coming years. Accordingly we are expanding the capacity of CPVC continuously and adding more CPVC extruders, injection moulding machines and moulds.

Regarding the adhesive business, both the plants at Kanpur are continuously undergoing changes especially in the packaging systems or the packaging machines and I think this year we should be able to complete all these corrections, which we are needed at the Kanpur plant to make it more effective moulds to speed up the products and also to help us to get into new product lines which we have developed here to be made this. So Kanpur plants are getting updated day in and out. We have taken almost 5-6 acres of land at Kanpur at Raniya to cope up with our future expansion. So that is more addition of land at Kanpur.

We have also added 4-5 acres of land at south at Hosur also for future expansion. We have also added some land at Santej, 10 acres of land for future expansion. So wherever need be, we have also added land made some land bank for future expansion.

The adhesive plant in Ahmadabad is almost now complete. The R&D building will take few more months to get ready and started its own activities but as per the plant is concerned, we have completed all major expansion work, capacity addition work, packaging, automization work, adding more machines, so adhesive if you say we have a huge capacity both now in Ahmadabad and at Kanpur both plants and we see a great future of adhesives and all the corrections made in GST and recent correction again, which have been made in GST. So adhesive business we see a great growth, we have got a good growth, we have also improved on the margins, so it is going on the right path of its expansion, product addition, capacity addition and market improvement and growth.

As far as the UK unit is concerned, it has shown growth, it has come through the whole profit levels. Mr. Savlani will go through the numbers of UK unit. We have also made lot of machinery related corrections at the US plant and it has also started giving positive results from the US plant especially in getting more production and sales from the US facility.

We are building a whole building for our CSR activities where old age activity center and yoga, activities will be done. The building is ready. The activities have started just a week back. So we have put this building for the use and the welfare of all the people of Ahmadabad and we will be doing a lot of CSR activities through this building.

Our future plans are where to look at getting into the east region as fast as we can and at least have a plant to make all our fast moving pipes there PVC pipes and we are moving in that direction and we should be able to start the plant in east in the near future at least within a year or from now.

Production addition as I told you we are working on many product lines in plastics. We are also working on many product lines in adhesive, and this year and next year we would be able to add to the product line for growth of the market for need of the market, for expanding the market, for growth of Astral and continue the pace of growth which we have been giving for many years, which has slowed down due to many reasons, but it is also back on track, improvement is done on the raw material price, more corrections will be done in coming six months and we will be continuously working on improving margins, improving growth, improving production rates, improving our utilization of the plants and working on the future to see that Astral keeps its base with the growth. With this I think more of your quires we should answer you through the questions which would be better and I will hand over to Mr. Savlani to take you through the numbers before we start the question and answer session.

Hiranand Savlani: Good afternoon everyone. I am sure the press release will be with you because of the GST the growth in nutshell numbers were mismatch. Now this quarter onwards, we are delivering the nut number without GST and earlier this we were giving the gross number. So now with this new adjustment if you see that the topline of the company has grown up from Rs.435 Crores last year in Q2 to Rs.520 Crores, so which is delivered a growth of closed to about 20%.

EBITDA has grown up from Rs.58 Crores to Rs.77 Crores, which has given a growth of close to about 33%. So you can see here compared to the topline, EBITDA is growing fast and that is what exactly we have guided you in last couple of quarters that now onwards company is focusing that the margin should be growing faster than the topline. Similarly PBT has grown up by 34% and PAT has grown by 30% and on a standalone basis also if you see that the revenue has increased from Rs.333 Crores to Rs.400 Crores, a growth of around 20% and EBITDA has also grown up from Rs.44 Crores to Rs.58 Crores close to about 32% growth in EBITDA and even if the PAT level also if you see it has grown up from Rs.21 Crores to Rs.26 Crores, so close to about 24%. In terms of volume, this quarter we have grown by 27%, last year our volume was 20522, against this year the volume has increased to 26070, so almost 27% growth is there, but in terms of production the growth was 22%, so that is the clear indication that we have sold more than what we have produced.

Coming to the subsidiaries number, Resinova continues to grow at 20%, so this quarter also it has grown up 20% from Rs.75 Crores to Rs.90 and EBITDA has also grown up from Rs.14 Crores to Rs.16.5 Crores. So we have almost maintained our EBITDA of last year 18% plus and it is little bit still disappointment mainly because of the US operations, as Mr. Engineer said that we are coming out from that problems. I am sure that in the coming quarter we will improve that number. So still it has grown almost maintained the top line, last year it was Rs.36 Crores, this time is Rs.36.6 Crores, almost 1 or 2% growth is there, but slightly improvement is there in the EBITDA last year it was 3.6%, now it has increased to 5.5%.

Overall adhesive business has registered our 14% kind of top line growth and 19% into the EBITDA growth. In terms of percentage, also we have improved slightly the margin 13.95% over the EBITDA last year, which has increased to 14.61%. As and when every quarter we will see that the India performance, which is the high margin performance compared to the overseas business will grow then this overall profitability number will start improving in every coming quarter. So the India operation will be growing 20% plus and UK operation after this adjustment of the machineries and all we are expecting that it will grow around close to about 10%-12%, but definitely the margin we are expecting that it will go to the double-digit which is right now very low close to about 5.5%.

Now coming to the individual segment particularly the pipe business, in this quarter across the category, we are seeing the growth. As Mr. Engineer had already explained that all the categories of pipe we are growing. Similarly we are expanding our network in all the states so we are adding lot of new distributor, because we have added lot of new product range with Astral in last three to four years, so we are increasing the net worth that is also contributing to us. Last two to three we have launched so many categories of pipe like column, conduit, agri, calsil pipe, low noise, so now all they were started giving the revenue to us and that is the one of the reason that in spite of so much of tough quarter was there in the country, we are able to grow 27% in volume terms. Expansion is also going on with full swing and except little delay into I can say that south operation, otherwise Rajasthan is doing well. So Rajasthan capacity will be up in this year itself and Hosur will be in the first quarter but with that little delay we are not going to lose any revenue because we are having enough capacity today whatever the little loss will be there that is because of the logistic side.

Now coming to the adhesive side of the business in Resinova particularly in the construction chemical side, we have added lot of new product like cement tiles adhesives, admixtures, epoxy grout, so lot of new products be added into that side and ultimately finally the most awaited product to the market which is the PVA, so we have now launched with our new revised packaging, revised brand name, Resinova PVA, so now recently we have launched that product and we are expecting that this product will also deliver sizably good number in the coming quarters.

Similarly we are waiting for the state of art facility of our R&D, which is building, is under construction. Once that facility will be ready, we are coming up with a lot of new products, which are in pipeline. So once this facility will be through, we will develop lot of new products and in next three to five year we are continuously going to add that new product into that category.

US operation ultimately we have come out from the problem, which we were lingering since almost last two to three quarters, so ultimately successfully we now tested the new machine and the initial results of the machines are very good and encouraging to – so we are now going to place two more new machines in US and with that two machines, I am sure that not only US will take care of the local demand, but it will supply to UK also as well as we are going to import for the India market also. So we are expecting sizable number from our adhesive business of US in the next financial year that is in FY2019 and with a very, very high EBITDA margin in our current business EBITDA margin.

FY2019 we are expecting all front it should be a good for Astral because new capacity will be there available then the regional capacities will be available so that going to help us in the improvement into the margins also. Now compounding facility is also there at the regional level like in south and in north also. That is also going to help us to improve the margins also. Not only margin but once you are near to the market even it will help to grow your volume also to that level.

Secondly we are now almost coming out from the teething problems of GST, which is the country, was passing through, now most of our distributors I can say have come out from all these problems of GST. Now things are moving into the right direction. Little bit problem was there into the Resinova side because Resinova side, the distributor very small, so they were taking a lot of time but now I am sure on that side also slowing and gradually improvement we are seeing, so we do not see now going forward any issues will be there relating to GST. So with this I am concluding my speech and then we are opening up the session for question and answer. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Hi Sir, Thanks for the opportunity, Sir couple of questions, one on the CPVC pipes growth, I believe this quarter CPVC pipes would have grown faster than the other products, just I want to understand where the growth coming in from?

Sandeep Engineer: From the Indian market. It is coming in from every, nook and corner of India, I do not say it has been concentrated in one region, maybe west or south and we are growing everywhere actually.

Nehal Shah: Sir is it because of replacement to traditional GI pipes or is it because of new construction obviously, which was slow down significant or is it because of cannibalization with respect to PVC pipes?

Hiranand Savlani: There are two to three things happening, one is that Astral, all branded companies especially with the GST I think are getting some mileage of growth, one. Secondly, our branding and right price correction, which we did from say almost one year plus as brought conversion of PVC usage to CPVC, so CPVC is growing in its demand at some sizes, we have make sizes up till 12 inch, you know that. That is the big thing and the third thing which I feel is that we are increasing our reach in the, we are also increasing the network, we are also working on retail and project aggressively and lot of changes in the Indian piping market, which you were very well aware of and continuous branding exercise also which Astral keeps doing as helped Astral to sustain the growth and maybe not sustain the traditional growth, I can say good number of growth from CPVC.

Nehal Shah: Right Sir, but Sir as projects than better or obviously retail would have contributed more this time?

Hiranand Savlani: I think both segment is doing well for us. So we cannot say that the project is slow, but both the divisions are working well. At some places the biggest things what we are observing that after dropping the price, now we are very closed to PVC pricing because PVC and CPVC if you certain sizes, the price is yet not there, what Sandeep Bhai is telling that the conversion is taking place because CPVC India follow CDS standard, the cooperative size standard and in PVC India follow the ASTM standard. So in the ASTM standard the weight of the pipe is higher compared to the CPVC similar size maybe half inch becomes half-inch dia pipe of 1 m, CPVC weight will be quite low than the PVC. So because of that end product level, pricing has substantially come down. We lost heavily the higher sized business because of the price. So now with the right pricing, this higher dia pipe business is coming back to system so that is also helping us to grow the volume faster.

Nehal Shah: That is because we have become effective post the sourcing arrangement.

Hiranand Savlani: Correct because of this backward integration, it is helping us.

Nehal Shah: Right Sir on the backward integration as the compounding unit in South India started already?

Hiranand Savlani: Yes, it has already started.

Nehal Shah: When did it start Sir?

Hiranand Savlani: I think started in August or so.

Nehal Shah: August?

Hiranand Savlani: Yes.

Nehal Shah: Okay and Sir my last thing on Sealant services, Sir our margins are dramatically falling from say 7%-8% at the time of acquisition to 3%-4%, is it largely because of the US operation only or is it something to do with Sealant as well.

Hiranand Savlani: mainly because of the US operation, because US is still not even at the breakeven level.

Sandeep Engineer: See the US what happened nearly is that we bought the US unit and then we shifted the unit, then we went for some improvisations of the technology and upgrading the machines because the machines were new. We needed some specialized machine, which has taken a more time to get it delivered and then stabilize so that all losses are accumulated and played a role in bringing down the profits of Sealant USA.

Nehal Shah: Say that because under utilization or?

Hiranand Savlani: It is not under utilization there were issues in some machinery to get the speed.

Nehal Shah: Sir efficient issues.

Hiranand Savlani: These are special machines, it took a time to get designed and delivered. So we are running late on getting this machine by two and a half to three months. So that only the issue, but now from last month the machines are there, the speed has come up and we feel that this quarter will see a positive boost in the US operation which will help the UK operation to be back on track.

Nehal Shah: So we believe UK operations should be back on track with double-digit margins starting this quarter or probably in next year.

Hiranand Savlani: Next year, right.

Nehal Shah: Thanks a lot Sir.

Hiranand Savlani: Thank you.

Moderator: Thank you. We will take the next question from the line of Bobby Jairam from Falcon Investments. Please go ahead.

Bobby Jairam: Hello, on PVC growth both your competitors Supreme and Finolex have said that the overall market is actually contracted and there was huge pricing pressure, but your sales numbers have been quite good, you can get market share over there or you view it differently?

Hiranand Savlani: I think they are more aggressive in the agri segment, agricultural piping segment, they are the leaders and they do major PVC business through agri segment, which I can understand and agri segment here there is less growth in the agri segment whereas Astral focus is only on the infrastructure side, the plumping business, we are there in the agriculture business, but not to the tune which Finolex and Supreme does, so I think the boost comes up from our construction segment where Astral is very strong, we got the Indian infrastructure segment of giving the piping system. Any other question please?

Bobby Jairam: No. Thank you.

Moderator: Thank you. We will take the next question from the line of Chandra Gopal from JM Financial. Please go ahead.

Chandra Gopal: Thank you for the opportunity Sir and congratulations for the great set of numbers. I just wanted to understand on this margin expansion thing, so what I understand is we are getting all this growth from new products, higher proportion on the new products, so are we having a good margin there, what is the strategy for pushing the new products in the market and is it not impacting margins, just wanted to understand that?

Hiranand Savlani: So, basically strategy is very clear that every segment we want to push, but not at the cost of margin, we do not want to be so aggressive that we sacrifice the margin and which come down to maybe a single digit kind of margin. So our strategy is very clear that we want to have a growth but at the same time with a reasonable margin, so new product is contributing us reasonably good number, but we are not compromising…we do not want to go into the cutthroat competition also, even if little volume will be dropped, it is fine to us, but we do not want to throw away the products in the market because we are a brand, we do not want sell it cheap, so that is very clear strategy, but at the same time our existing business is the products is also doing well, like CPVC and all are also reasonably a good market products, so they are also contributing. So overall if you see that the new product is also contributing at the same time old products are also giving reasonably good margin and going forward also we do not see any problem into that, but competition sometime little bit compromise you have to do but not to the sizable extent.

Chandra Gopal: Great Sir and also Sir in agri part of the business what is the proportion right now?

Hiranand Savlani: Very low. Very, very thin.

Chandra Gopal: And the broad mix for CPVC and PVC for quarter?

Hiranand Savlani: We do not share all these numbers, so I am sorry.

Chandra Gopal: Not an issue, I will get back in the queue. Thank you.

Hiranand Savlani: Thank you.

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

Praveen Shah: Congratulations for good set of numbers. Can you give on the adhesive of business as you had launched already a new product PVA, so can you give some colours on what is opportunity size in India and like the way forward as what level we are looking at for this product?

Hiranand Savlani: See adhesive, we have launched PVA, but let me very frank that we are more strong in certain product segment Epoxy, silicone, the pipe joining adhesives and some part of cyano. So we would be growing and having full trust on the growth of these segments. PVA, we are going to take on a giant, so PVA we will need time to get established to deliver growth to get into a real growth numbers, our team is working on it and we will do our best to give the best numbers on PVA on the growth, but to me this real growth of PVA will be seen after five to six months of the launch. It is not going to be overnight whereas the other segment which I told you where we are strong, we are growing very fast on those segments and we will continue to grow. Building chemical is one segment, which we are now focusing also, is giving us good growth, cementitious mixtures is giving us good growth, so PVA is just launched, actually it is complete full range, full packing, full range actually we launched it today itself, so PVA is just launch with a new, you can say avatar, the new brand name, the new packing, the new visibility, we have changed everything in PVA, the brand name itself is changed now from what we got as a brand from Resinova, when we bought it, we have launched it in totally new quality, new variants, everything is being just launched today. We need at least six months to get to numbers of delivery.

Praveen Shah: It is launched mostly in the northern part or throughout and our plant also we are going to manufacture and launched the western part of the India as well.

Hiranand Savlani: Actually we will be making it at both the plants at Kanpur and Ahmedabad and both have good capacity, and we have increased the capacity. Ahmadabad plant has more capacity and Kanpur has equal good capacity, so it will be sold from both the plants and we will be selling in entire India where we have our distribution network, we will not be just keeping it focused to some specific areas.

Sandeep Engineer: The kind of opportunity what you are asking is impel, you know how the other players are delivering the number, so sky is the limit in PVA I can say. So, now we have to design our strategy and slowly and gradually we want to grow, we do not want to fight or something like that in mind, slowly and gradually with our network and with our brand strength of Astral, we want to grow, so there is no particular number of growth or something in mind, but yes the opportunity is so huge so definitely we are going to deliver reasonably good number in the coming quarters.

Praveen Shah: Secondly on the overall Resinova margin, we had already reached to 18%-19% of margin. So is there any further uptick we are expecting in this or this is somewhere we can assume the stable margin way forward.

Hiranand Savlani: So I think this number is good number even we have not guided that kind of number also, if you see our earlier, we are always saying that if it is equal to the pipe number, 14-15% we are always happy, but it is a good thing that we are getting the opportunity, so we do not want to lose also at the same time. So I think 18% margin is a pretty decent margin. So, we are not expecting to improve from here on, but at the same time if the opportunity will be there and we find there is a gap, we can improve also, so it is not a – I can say it is selling at 18%, the scope is still there which we can clearly see in the market but there is a still tremendous scope is there to improve the margin, but we are not focused at this stage to go beyond this thing, but will see going forward how the numbers are behaving, based on that we will work out our strategy, but we are happy with what today we are getting.

Praveen Shah: Sir lastly on – can you give the total distribution network numbers for our adhesive and for our piping.

Hiranand Savlani: Praveen I do not have it handy with me right now, so I will give you on a one-on-one call basis, maybe tomorrow or so.

Praveen Shah: Yes, sure Sir and can you have a handy of SKUs we have for piping.

Hiranand Savlani: No piping also I do not remember, so many SKUs 1000 of settings are there.

Praveen Shah: I will connect you separately, thank you Sir.

Hiranand Savlani: Thanks.

Moderator: Thank you. The next question is from the line of Sonali Shilgaonkar from BOB Capital Markets Ltd. Please go ahead.

Sonali Shilgaonkar: Sir good evening, thank you for the opportunity. Sir my first question is with reference to our guidance that we set out at the start of the year, so we saw a way good volume growth in H1, so do we retain our 18-20% volume guidance and 14-15% EBITDA margins for pipes or do we revise that at this point in time.

Hiranand Savlani: I think we have given a guidance of 15-20% volume and 14-15% EBITDA margin, so we are maintaining that margin, maybe a little bit higher side also, but it is difficulty to say at this stage, but margin conditions are good, so it can be a positive side also.

Sonali Shilgaonkar: Sure, Sir and what are the expectations for Seal It over the year?

Hiranand Savlani: Seal It, I am sure next year onward it will deliver a doubt digit margin that is what we are internally working for that. One, this US issue will be sorted out, now I think we are on the verge of sorting out. So one machine is up and two we are delivering putting the order this week, so hopefully that will be ready by January, so then it is start improving the market share in US. At the same time, we are going to import for India market and at the same time, UK will also import from them for their UK market. So we want to see the performance of all these machines and maybe next year we may increase the machines and we may up the capacity and then will start. So I am sure next year at least Seal It will contribute Rs. 40-50 Crores kind revenue, this US operation only and Seal It in an normal way it is growing at 8%-10% so that run rate may continuous, so overall our expectation graph from our overseas operation is very high for the next year, actually we are delayed in two quarter I can say. We are already delaying two quarters. So hopefully everything will be sorted out and next year, we are expecting reasonably good numbers from the overseas operation.

Sonali Shilgaonkar: Sure, Sir my second question is with reference to our capex Sir post all the capacities that Mr. Engineer outlined at the start of the call, our overall capacity should reach 175,000, right?

Hiranand Savlani: Correct.

Sonali Shilgaonkar: And with the entailed capex of Rs.200 Crores, so about Rs.100 Crores in FY2018 and Rs.100 Crores in FY2019, is that correct?

Hiranand Savlani: We have guided Rs.150 Crores for two years, for this year and the next year.

Sonali Shilgaonkar: Okay. All right Sir. Sir and in the domestic CPVC market, post our new launches and our robust distribution, what could be our present market share?

Hiranand Savlani: I do not know exactly the number and I might be knowing, I do not want to share at this time to be very honest with you because we have stopped giving, because unnecessarily we do not want that we all competitor fight with each other for numbers and all, so we have stopped giving all this number.

Sonali Shilgaonkar: Sure Sir and my last question, should we expect the sustainable levels for ad spends at 1.5-2% of net sales going ahead.

Hiranand Savlani: Yes and now the top line will be growing in absolute terms, it may little come down, so 1.5% is the safe bet, I think.

Sonali Shilgaonkar: Sure. Sir this is very helpful. Thank you.

Hiranand Savlani: Thank you.

Moderator: Thank you. We will take the next question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Hi Sir. Thanks for the opportunity. Sir my first question is on the volume growth Sir, would you provide some colour on how we achieved such strong volume growth like, was there an element of restock during this quarter and could you provide some colour on the volume contributions specifically from the new product launches, I understand that we do not give a split of PVC and CPVC.

Hiranand Savlani: See it is a mix of all, some element was restocking also, some element was contribution from the new product also, some element was because of the increase in the distribution network over there, so it is a combination of all. So it is not particularly one region that we can identify and say that this was the main reason, so it was a mix of all things and overall market conditions were good, it is not only Astra, if you see the other companies have also grown up the volume, so overall the market conditions are improving and that is helping to all the organized players.

Ritesh Shah: Sir let me put it in the other way, is the inventory in the distributor dealer sales at the normalized levels or is it still below the normalized level?

Hiranand Savlani: I think it is still below the normalized level because at a network level if you see there is a lot of crisis going on for the working capital, so distributor and dealer level there is no sizeable working capital available then they can hold more inventory, so I do not personally feel that there is an original level of inventory lying with the dealer network or distributor network. So, whatever they required they are buying, but still there is a gap which can be corrected over a period of time because still working capital crisis is there in the system.

Ritesh Shah: Okay, Sir second question is on the cost saving drivers, I think in the earlier question you indicated that we started the compounding facility in August, in the prior calls we have indicated about power cost savings, though we have not quantified it, Sir can you provide some colour on the incremental cost saving driver that we are working on?

Hiranand Savlani: No, we are still now like Santej has got the connection of 66kva, Dholka was little bit delayed, so now there are getting I think within a week or so time, because we are waiting for the electricity people come and connect the line, everything is ready and they can just switch on only, so we are waiting for that and but unfortunately on the exchange right now the power availability is very costly, so right now on exchange what power we are getting that is costlier than the GEP power, so we are not opting that option, but I am sure that now this post Diwali normally easing out take place, so hopefully maybe one month down the line or so, we will start getting the power, then we will be able to tell you how much exact saving will be there or we may opt for some other alternate options also available in the market, so we are working on that also, but I am sure next year there will be a sizeable saving into the power, but this year we have to work out and tell you because still not started.

Ritesh Shah: Okay, Sir on the compounding facility, full benefits are yet to come or is it like from August and September we utilized ....

Hiranand Savlani: Next year you can expect full benefit because we are expanding in south so that will help us and north also we are expanding so there also we will get the advantage so overall I can say the good advantage which we have originally forecasted that will be available to you in FY2019. So this year still there will be no full advantage, next year will be the full advantage.

Ritesh Shah: Sir what will be the expanded capacity in Hosur?

Hiranand Savlani: Hosur right now it is around 18,000-20,000 capacity, we are almost utilizing more than 90%. We are trying to double that capacity. Almost you can say close to about 40.

Ritesh Shah: Okay and Sir Rajasthan will be how much?

Hiranand Savlani: Rajasthan will be another 20,000. So with this, I think we are through in capacity, we do not need the additional capacity in at least another couple of year except the east plant which we are looking, there also we will – initial size maybe 20, so then after FY2019 only this east capacity will come, and then FY2020 onwards you will see that the capacity utilization will start improving in a big way, so incremental capex will not be there, so you will be getting a lot of free cash flow from FY2020 onwards, but still today we are in a capex cycle, like this year also we are targeting to put some money, next year also we are targeting to put some money. From FY2020 onwards, incremental capex will be very negligible. So then you will see that lot of free cash flow will be available to the company.

Ritesh Shah: Sir just two more questions, one is on the distribution networks on the adhesive side, Sir if you could provide some numbers where it would quite helpful Sir?

Hiranand Savlani: I told in the previous question also that right now I do not have a handy number with me, but surely we will give you maybe the post concall, maybe tomorrow or so.

Ritesh Shah: Okay and Sir last question, how do we see the pricing differential in PVC, CPVC and agri prospectus between organized players and between unorganized players this is with respect to last year?

Hiranand Savlani: I think post GST that the gap has reduced substantially I can say, so now I do not think it will be more than 5%-6%, so it is a good thing that post GST, a lot of barriers have gone away like I can give you an example of Mumbai, last time also I was telling that if I sent the material from Gujarat to Mumbai, 5% or 5.5% Octroi duty, then 2% was the CST then logistic cost, so it was getting my products so costly. So local player will always take the advantage out of all these things. So now all these barriers have gone away. Now only difference is the logistics, but again that is the purchasing power of organized player will be much, much stronger than the unorganized player, so practically speaking there is no gap available. So they have to compromise the margin and sell the product into the market, so gap will not be more than 5%-6%.

Ritesh Shah: Sir, this will be for both PVC as well as CPVC.

Hiranand Savlani: Yes, CPVC it may be a little more, PVC is not much, but 1% or 2% here and there, that is all.

Ritesh Shah: Okay and Sir between unorganized players and organized players Sir, how will the differences will be. Why I am asking is I am trying to understand is there a shift from unorganized to organized already happening, which is aiding our volume growth or is it too early to conclude on the same?

Hiranand Savlani: So, you can say it is just a beginning of the journey, so we cannot conclude on a one quarter number, we have to patiently wait for another maybe two or three quarters and then we can say that the trend is moving into that direction, so on a one quarter basis, at least I will not be in a position to say that now already shift has taken place, sizeable shift has taken place. No, we have to wait, we have to understand the market dimension.

Sandeep Engineer: At least one more year we have to see.

Hiranand Savlani: Yes, maybe one year or so, you are right.

Moderator: Thank you. We will take the next question from the line of Kamlesh Kotak from Asian Markets Securities. Please go ahead.

Kamlesh Kotak: Good evening Sir. Sir my question pertains to adhesive business, have we taken any price increase during the quarter, which is driving the margin or is it the benefits of Ahmedabad plant that we are just deploying in?

Hiranand Savlani: So we increased the price also, and whatever the chemical price went up, we have tried to get the price from the market, that helped us also in the trend.

Kamlesh Kotak: So in a way so the differential between us and the large players are now being narrowing, is it?

Hiranand Savlani: No, actually Kamlesh Ji if you see the last year number also, the margins were high only, so it is not that this year… last particular quarter was worst in terms of margin, there are many reasons because we have to give the CST credit to our…we have to incur a lot of logistic cost, so it was basically peer of GST, so because of that distributors are taking advantage out of that and they were taking all the whatever losses they were supposed to incur, they were passing on to us, but at the same time they are our partners, so you have to support them also. It is not that they are taking only advantage, so we supported them and that is the reason that Q1 numbers were low in terms of margin, but otherwise you see the numbers are maintained, even last year also 18% plus kind of margin over there and we are quite confident that we will be able to deliver higher margin only in the coming quarter.

Kamlesh Kotak: Okay and Sir what is the growth guidance we could have from for the adhesive business?

Hiranand Savlani: Adhesive I think India business will keep continuing 20% plus, maybe next year we may see some good spike, maybe higher than that number because by that time our new product will be penetrated in the Indian market, lot of branding activities taking place into the adhesive side also. So all this going to contribute us next year, so I am sure and this Ahmedabad capacity is up now, all the products are available in Ahmedabad plant also most of the product, so that is also going to help us to penetrate the market. So all these things I think next year it will be a good number. That does not mean that this year is not a good number, this year also we are expecting good number only, but I think FY2019 adhesive, we are expecting reasonably good number from India operation as well as overseas operation.

Kamlesh Kotak: Okay, secondly Sir one point I was just observing on the balance sheet side, our inventory has gone up substantially from March to September, both standalone and console while the debtors have come off and Sir second half is a bulky quarter for us, so debtors has to be lower on that comparison but inventory has gone up for both standalone and console numbers, so anything that you can share on that?

Hiranand Savlani: See mainly inventory has gone up because of two reasons, one is that company is foreseeing a good number in the second half, so because of that we have to buy more and historically also if you see the number of Astral over the last four to five years, first half is contributing around 42%-44% and the second half is contributing around 56%-58%, this is the normal trend of the past history, I do not know about this year what will be ultimate scenario, but this is the normal, so practically if you see that the second half is contributing 32%-40% more than the first half, so because of that also we have to buy more. Secondly, if you remember we have communicated in our earlier con-calls also that earlier we were sourcing 100% our PVC material from Reliance, okay. So now we have reduced that quantity and we have gone to the import because of I can say pricing advantage, we were losing into the pricing, so because of that we have adopted to move into the imported material stuff, so because of that lot of material will be in transit also, so that is also increasing the inventory. Parallely if you see with this increase in inventory our payable days are also going up, payable side also it is improving because all the material which is lying in transit which we have opened the LC, so one side it is increasing my inventory, other side it is increasing my payable. So I am sure that this is definitely a higher inventory, maybe year end we are targeting to be somewhere around Rs. 200 Crores to Rs. 220 Crores kind of inventory in the March balance sheet.

Kamlesh Kotak: Right. Great Sir. That is very useful. Thank you.

Hiranand Savlani: Thank you.

Moderator: Thank you. We will take the next question from the line of Chintan Seth from Samiksha Capital. Please go ahead.

Chintan Seth: Thanks and congrats for a very good set of numbers, one thing on the pricing events between CPVC and PVC that gap has narrowed down for particular product categories, so can you throw some light on at least in between your products in PVC and CPVC, what is the price differential, if not compared to the competitors if you can provide it?

Hiranand Savlani: You want to understand our price difference between PVC and CPVC?

Chintan Seth: Yes, if you can provide with the competitors it will be great?

Hiranand Savlani: So very difficult to provide because every size the pricing will be different, but I can give you a broader range that our product PVC and CPVC similar size difference will be varying between 7-8% to maybe 20%.

Chintan Seth: 17% to 20%.

Sandeep Engineer: Certain sizes are lower, certain sizes are higher.

Hiranand Savlani: 7%-8% to 20% I am telling you. It depends on the size to size.

Chintan Seth: 7% to 8% to 20% that is what you are saying.

Hiranand Savlani: Yes, it is a broader range, because it depends on the size to size.

Chintan Seth: Earlier it used to be like double the PVC price.

Hiranand Savlani: Yes.

Chintan Seth: So that has narrowed in considerably, is it right?

Hiranand Savlani: Yes.

Chintan Seth: That might be pushing the – we have seen certain competitors realization under pressure because of demand push strategy or they are pushing more volumes in the market, one of the reasons may be because competing with the CPVC also they require to reduce their prices, is it the right reading or maybe the application…?

Hiranand Savlani: No, we do not know about other competitor what they are following…?

Sandeep Engineer: We do not know that strategies. We are focusing on…

Chintan Seth: Right, but Sir overall competitive pricing between the PVC and CPVC, within the competitors will be similar, 7%-8% to 20% or it will be higher like 50%....

Hiranand Savlani: Every competitors have a different pricing mechanism, every market has a different pricing mechanism. So it is very difficult for us to answer your question on a one line, so market to market it is different, product to product different, competitor to competitor different.

Sandeep Engineer: And how effectively he is purchasing his raw material is also very important.

Chintan Seth: Right, because underlying prices of material is also moving in different direction.

Hiranand Savlani: Correct.

Sandeep Engineer: That is very important.

Chintan Seth: Right Sir. Okay. Thanks. That was the question I want to ask.

Hiranand Savlani: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Ms. Shazia Khan for closing comments.

Shazia Khan: Thank you so much Mr. Engineer and Mr. Savlani for give us so much of time to discuss the results. I would like to thank you from Nirmal Bang and do you have any closing comment Sir?

Hiranand Savlani: Thank you Shazia for your support and organizing this concall and we thank to the Nirmal Bang also for helping us to organize this concall and at the same time we want to thank all the participant who were taken the precious time in joining into the conference call and thank you once again to all of you.

Sandeep Engineer: Thank you everyone.

Shazia Khan: Thank you Sir. All the best.

Moderator: Thank you. Ladies and gentlemen with that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.