

# "Astral Limited Q1 FY24 Earnings Conference Call"

## August 11, 2023







MANAGEMENT: Mr. SANDEEP ENGINEER – CHAIRMAN & MD

MR. KAIRAV ENGINEER – EXECUTIVE DIRECTOR MR. HIRANAND SAVLANI – EXECUTIVE DIRECTOR &

CHIEF FINANCIAL OFFICER

MODERATOR: MR. RITESH SHAH – INVESTEC CAPITAL SERVICES

(INDIA) LIMITED



Moderator:

Ladies and gentlemen, good day and welcome to Astral Limited Q1 FY24 Earnings Conference Call hosted by Investec Capital Services.

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 pressing "\*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ritesh Shah – Head (Mid-Market Coverage & ESG), Investec India. Over to you, sir.

Ritesh Shah:

Thank you all for joining for the Astral Q1 Conference Call. We have with us from the management team, Mr. Sandeep Engineer – Chairman & Managing Director; Mr. Kairav Engineer – Executive Director; and Mr. Hiranand Savlani – Executive Director & Chief Financial Officer.

I will hand over the call to Sandeep bhai for initial remarks post which we will have a Q&A session. Over to you, Sandeep bhai.

Sandeep Engineer:

Thanks everyone for joining the earnings call for Q1 FY24.

I am very delighted today that this year, Astral is going to celebrate its 25th anniversary in October 2023. Astral started its journey in October 1998. So, we are completing our 25 years of journey in the industry and we are going to celebrate which we will fully commemorate the legacy of our innovation, connectivity, and brand building while distribution reach and strong product capabilities across the country.

As you are very well aware, the market situations are highly volatile and particularly the downward polymer and chemical pricing situation within which we have continuously worked to deliver the numbers. I am happy to say that the Astral team is working hard, and once again within the volatility also, we have given fairly good growth and particularly in pipe 31% volume growth and in Adhesive also a very healthy volume growth has been given by our company. Demand scenario is very robust, and seasonally, this quarter is highly loaded with PVC products such as agriculture pipes and drainage pipes. In spite of that, our CPVC team has done a remarkable job and is able to give us a very healthy growth. This is the reason, in spite of PVC downward pressure, we are able to deliver a very healthy approximately 18% EBITDA margin after adjustment of Sanitaryware and Faucet losses of the quarter.

In our pipe business, due to robust demand in pipe vertical, the company has decided to aggressively move into expanding its capacity. We have now decided to put 3 new plants instead of two which we discussed last time – Guwahati 22,000 metric tons, Hyderabad 70,000 metric tons, and Kanpur 50,000 metric tons. We will push fast track expansion based on the demand scenario. Guwahati plant work is in full swing and we are expecting the trial production to start from next month. This plant from its inception to commencement has been fast because we have



gone ahead with a property which we have leased out. We have gone on a leased premises to put this plant. We are working hard to increase our existing plant's capacity by putting in new machines as the demand is very robust. And so, we have to use the space within the existing plant with the lowest capacity. We increased and we added a few machines after the demand scenario which came up from April. In the months of May and June, we have added a number of machines in our PVC capacity as well as other capacities in various existing plants.

Hyderabad plant expansion work is in full swing and we are trying to complete the project before schedule and we will roll out phase I from this plant in the coming year. In Kanpur, the company has purchased 24 acres of land and shortly we will start construction activity once again as the plans are ready. Kanpur, we have taken a decision looking at the expansion scenario and the demand scenario in the state of Uttar Pradesh and surrounding areas. And there is going to be a robust demand coming up from the North India. And with that, we have taken a decision to go ahead to have a plant in Kanpur. And already we have an establishment in Kanpur because we run our 2 adhesive plants out of Kanpur. In Adhesive and Sealants, our Dahej plant has started trial productions and will be fully operational in coming months. We will get the benefit from that plant in coming quarters. We will see automation and capacity rationalization. Because most of these materials will be bought in volumes and will be stored in bulk storage facilities which we have created above the ground and under the ground and which will save a substantial amount for us in the raw material cost. Our volumes are continuously growing high and our prices will settle down, as you see a very healthy growth. And the value growth will also be there in the coming months with the volume growth in the Adhesive business.

In the Paint business, the company has appointed a very senior person now and more senior persons are joining. We had to go through 2 challenges here. One is the demerger which happened just recently with their various smaller companies associated with Gem Paints, with the NCLT order which is now in place. We also implemented SAP and various systems and processes in April from this new fiscal in Gem. So, Gem is now working completely on SAP. Gem has a lot of programs and systems which Astral uses and also we did a due diligence and detailed diligence of every of its buyers and dealers and we had also changed certain policies which are favorable in the way we do our Adhesive and Pipe business on credits and receivable cycle.

Our branding team is working shortly to move the Paint business with Astral Synergy and we will be shortly unwilling the Astral Synergy launch in the Paint business in coming months and we will surely connect with you either through a call for this or we will have a personal gathering for the launch of Astral Synergy in Paint shortly in Mumbai.

#### Sanitary and Faucets:

I am very happy to announce that we are inching on growth and we are even looking at substantial growth in the coming months and quarters and we are going on a firm footing in this business. Our first milestone of 500 stores has been achieved. We are getting good orders and



project orders from good builders and good projects which also is a very positive sign for us. And we are just going ahead to launch another range called the Tresco range which will be an economical range in the market. And this range will be sold through the distribution channel of Astral as well as new distributors and through the retail channel which are served by Astral and the Adhesive and the Paint business. This range is ready. It will be launched in a couple of days and it is going to be a much economical range and it will give a boost to the Faucet and Sanitary business, with the buyers who go for the economic housing and from the channel which we already have. We are continuously getting good inquiries from projects for this. The sales is very good on the project side in faucets and adhesives.

A lot of new SKUs are getting introduced in the market as per the demand and we are also increasing our product range both in Faucets as well as we are also putting new chemistries in Adhesives on the waterproofing and the construction chemicals. We are also working to put new chemistries in the white glue segments, especially the products which are used to join the plastic and wood.

#### To summarize:

All verticals are doing good and we are going as per our plans and we don't see much challenges in the market and we will keep giving you a consistent growth for which the company is known.

I now hand over to Mr. Hiranand Savlani, our ED & CFO for his opening remarks on the numbers. And then, myself, Hiranand bhai, and Kairav will answer all your questions. And once again, thanks for joining and trusting Astral.

### Hiranand Savlani:

Good afternoon everyone and thanks for joining this earnings call of Quarter 1. Once again, I am very happy to share very robust Q1 numbers.

As communicated in the past, Astral is always believing in consistency and we will always try to maintain this consistency in the coming time also. As Sandeep bhai said, demand is very robust in the market, and Astral being one of the leading players, we are receiving a very good response in the market for our brand and that is the result of this Q1 robust numbers with a 31% volume growth. And you all know that Astral is not an agricultural company. We are more focused on the plumbing side of the business. The revenue growth in the Pipes was 7.1% and Adhesive & Paint was 2.4%. The reason for lower value growth was mainly due to heavy reduction in the polymer price and the chemical price. That was passed on to the market and that is the reason that the top line growth was lower than the volume growth. Even in Adhesive also, volume growth is very robust.

Paint business was highly affected due to implementation of SAP. So, dispatches were stopped and we were completing new KYC norms also. Because of that, we lost around Rs. 15 crores to Rs. 20 crores of sales and that is why the Paint business has de-grown by almost 25% to 26%. Pipe margins were very healthy, close to 18% of EBITDA if you do the adjustment of Sanitaryware and Faucet. Also, some inventory losses were there as some portion was in PVC



and some portion was CPVC also because CPVC prices have also fallen in this quarter. That was close to roughly about Rs. 15 crores kind of run rate.

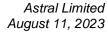
Adhesive, our Indian operation was having a very healthy growth. In value terms, it was 10% while the volume terms was much higher. In the UK, it was 4.5% growth. And as discussed, Paint was de-grown. Margins were good in Adhesive also. Indian operation was roughly about 16% EBITDA while the UK was disappointing a little bit and having 8% of EBITDA margin. And our Paint business was having roughly about 17% EBITDA margin. In spite of so much of a challenge in the top line growth due to value erosion, we were in a range of 14% to 16% margin which we guided earlier. We have maintained that run rate. And even in pipes also, we were at 18% margin. If you adjust even the inventory losses, then it was even a higher margin.

Demand scenario in pipe business is very very robust and that is the way how we are seeing in the coming time also. Numbers are going very very excited way and that is the reason we are going very very aggressive in our expansion plan, which normally Astral doesn't do so aggressive expansion activities. But looking to the current scenario, it looks that now the demand is going to be in the right direction.

And I am sure Sandeep bhai has already communicated to you in detail about each location-wise capacity addition and the implementation. We are further targeting that if the demand scenario will ramp up from here that we may complete our projects before schedule also because we don't have any issue of cash because the company is already sitting on a sizable cash on hand.

Our value-added product contribution like Valve, Silencio, FirePro, DrainPro, etc., is very well, and that is the reason you are seeing, in spite of having so much of pain in the margin in the entire industry, we are able to deliver 18% plus EBITDA margin in our pipe segment. Sanitaryware business is slowly picking up as per our plan as we were focusing at present only on creation of new stores. And I am very happy to communicate, as Sandeep bhai said that we have crossed the 500 mark, which we communicated earlier that our first goal is to complete 500 stores and then the next milestone will be decided. Now we are giving a clear KRA to our team that – Q2 still will be some focus on the store creation – from Q3 onwards, we will be focusing on the sales side. And I am very happy to say that in the last 3 months, our run rate has crossed Rs. 5 crores monthly and this will increase substantially in the coming quarters. With this launch of economical products into that category, that will also help us to increase our run rate.

Paint: NCLT order was received and filed with the RoC on 1st August. So, now the demerger process has started and shortly we will settle down and our team will take charge of the business under the new demerged entity. We will be seeing Astral Synergy in the business from Q3 onwards. Sandeep bhai has already taken a very rich experienced senior person who has joined the organization. We are confident that he will be taking this business to the next level and we are expecting a very very exciting time ahead in that vertical also. Further, I want to highlight here that if you see the number, the gross profit margin Y-on-Y basis has shot up from 31% to 37% on a consolidated basis, so 6% improvement in the gross profit margin. But that was not





proportionately reflected in EBITDA margin. That is mainly because of the erosion in the value growth. Volume growth was there but value growth was not there because of the lower polymer price. It is not proportionately converted into EBITDA margin. But I am sure that in the coming time when the value will start picking up which we will shortly see in the Q2 and further improvement from Q3 onwards, then you will see from Q3 onwards value versus volume will be more or less in the same zone. In that quarter, you will see that the EBITDA will also shoot up.

We are having lower EBITDA compared to the GP improvement, but still you can see the number that employee cost though it is moving in the same direction but percentage term it has improved from 6.3% to 7.8%. Similarly, other expenditure also if you see, that has also gone up from 10.8% to 13.8%. That is mainly because the top line growth is not there. That's a percentage term; it is showing very high. Even if you compare last quarter which was a very heavy quarter for us, the other expenditure was Rs. 183 crores. Now it has come down to Rs. 177 crores. But if you see the percentage term other expenditure, last quarter it was 12.1%, now it has shot up to 13.0%. My objective of communicating this number is that the GP improvement is substantial but that is not reflected in the EBITDA margin which you will see in the coming time.

Adhesive also if you see that the GP is all-time high. For the last 3-4 years, the highest GP 41% we are seeing in this quarter. I think in all fronts, numbers are moving into the right direction and we are expecting a reasonably good improvement in the margin in the coming time. Of course, these margins are also excellent margins, but looking at the way GP has improved, we are expecting there is room for further improvement in the margin in the coming time. I don't want to take much time, and once again, thank you for trusting Astral and joining for the call. Now I open the floor for the question & answer session. Over to the moderator.

**Moderator:** 

Ladies and gentlemen, we will now begin with the question & answer session. We will wait for a moment while the question queue assembles.

The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal:

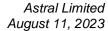
Sir, 3 questions. Firstly, on Adhesive. You said obviously the pricing is under pressure but the volume growth was good. If you could highlight what was the volume growth both in India and outside and the outlook for the year in terms of growth and margins?

**Hiranand Savlani:** 

We are expecting 15% plus full year growth for Adhesive business, 15% to 20% kind of growth. And we have guided that we will be delivering 15% plus EBITDA margin. We are standing by with that number. Q1 was 14% something but we are expecting that in the coming 3 quarters, the margin improvement will be there because the GP are all-time high. That has given us the confidence that once the value growth will come back, then the margin will also shoot up.

Rahul Agarwal:

What was the volume growth, sir, in 1Q?





Hiranand Savlani: We don't have an exact volume because some products are in liters, some are in kg, some are in

PC, so very difficult to know. But yes, definitely it should be somewhere around 15% to 20%

kind of run rate.

**Rahul Agarwal:** So, demand is not a problem, it's just that the pricing has to settle down and then things get back

in place, right?

Hiranand Savlani: Exactly. Even demand has soared. Pricing has also settled down. Only thing is that the prices

have dropped substantially. Because of that, we have to pass through some portion to the market.

Because of that, top line growth in value terms is not there. Otherwise, everything is fine.

Rahul Agarwal: Sir, secondly, on the capacity and I want to thank you for the timelines given for capacity

addition, really helps us to calculate how the next 3 years will look like. But on the

debottlenecking side if you could help us, what's the expansion plan?

Hiranand Savlani: Like Sandeep bhai has already said that whatever additional space is available within the existing

plant, our first priority because the way volume growths are coming which we were never expecting that kind of growth, but looking at even the current quarter numbers also, it looks that the volumes are moving very fast. In that case, the easiest way to improve the capacity is the Guwahati which we have taken on the lease premises. So, first will come that. And the second easiest way is that whatever the capacity is available in the existing plant, we are adding the machineries over there. Our team is working on that and continuously we are working on that. I

machineries over there. Our team is working on that and continuously we are working on that. I think number is not freezed how much we are able to. The team is working on that, but I am sure

there also we can improve the capacity. We can add a few machines and that is what we are

working on right now. How much exact capacity will be added? I think we will be in a position

to tell you in the next quarter con-call.

Sandeep Engineer: We have off the rack taken quite an amount of machines in the last quarter and have put most of

them in production in the month of June and putting some in the July. This is going to help us

to immediately ramp up the capacity in the products.

**Rahul Agarwal:** On an average, 10,000 tonnes to 15,000 tonnes of debottlenecking in existing plants. Is that a

fair number?

**Hiranand Savlani:** Yes, you can expect that number.

**Rahul Agarwal:** So, basically we are adding 1,40,000 tonnes on the 3 plants plus that 2,90,000 existing. That's

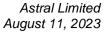
about 420 and plus 30,000, let's say 10,000 each year. So, the third year exit fiscal '26 is going

to be about 4,50,000 tonnes is what I am working with. Is that fair enough?

Hiranand Savlani: Yes. And it is up to us how fast we want to ramp up. If we really see that the demand is exceeding

what we are planning, then we can do it a little early also because cash is not a problem to the organization. We can deploy a fast track team and we can try to complete the expansion activity

early also. It depends how the demand is going to work out because in the last 2 quarters at least,





we are seeing a very robust demand and now this quarter has also started with a very very bang, I can say. It looks that the demand scenario should be better only.

**Rahul Agarwal:** And last question from my side. Bathware sales, you said Rs. 5 crore run rate a month. So, I am

assuming Rs. 15 crore sales for the quarter. Is that fair?

Hiranand Savlani: Last quarter, it was around Rs. 13.9 crores or something because April was low. May-June was

very good. July is again very good. The last 3 months, I have considered May, June, and July.

All the 3 months were Rs. 5 crore plus.

Rahul Agarwal: Paint sales and EBITDA, you said 25% degrowth. My number is about Rs. 40 crores of top line.

**Hiranand Savlani:** Paint is Rs. 41 crores.

Rahul Agarwal: And 17% EBITDA, right?

Hiranand Savlani: 17% EBITDA. EBITDA was good because the GP improvement was substantial in that business

also. But that is mainly because of the long-term benefit. We have to implement SAPs and we have to do the Re-KYCs and all. That's why we have knowingly sacrificed the sales. But that's fine. We have done this kind of exercise in Adhesive also when we implemented the SAP, when

we acquired the Resinova also.

Rahul Agarwal: Sir, lastly just squeezing in one. The new person who has joined for Paints. Could you elaborate

a bit? Could you share some details about who the person is?

Hiranand Savlani: We will share it at the appropriate time, but a very richly experienced person having 20+ years

of experience in the paint industry.

**Sandeep Engineer:** We are having some personnel joining there also. But at the right time, we will communicate on

that.

Moderator: The next question is from the line of Dhananjai Bagrodia from ASK. Please go ahead.

**Dhananjai Bagrodia:** Just a question regarding on EBIT per tonne, what number do we think or OP per tonne do we

think will be steady state for the year? Because, there has been some variation. Now, assuming

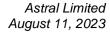
we are steady state in terms of inventory gain and losses, what would be that for the year?

Hiranand Savlani: I don't track EBIT but EBITDA basis, we are considering that its number should be in the range

of 35 to 40 minimum.

**Dhananjai Bagrodia:** These are the losses of the bathware business. It is taken in which segment?

**Hiranand Savlani:** Pipe.





**Dhananjai Bagrodia:** How much was the loss for the quarter?

**Hiranand Savlani:** Last year was Rs. 16.5 crores. This first quarter is 3.4 crores.

**Moderator:** The next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

**Praveen Sahay:** Sir, my first question is related to volume growth, which is quite high at 31%. Can you elaborate

a bit on that? It is largely because of the plumbing, and in the plumbing, it is largely because of the project business. There, the growth is coming in or the capacity expansion or the geographical expansion you are doing. Can you elaborate a bit on that from where these growths

are coming in?

**Kairav Engineer:** The growth is coming from all the different segments that you mentioned. It is coming from

geographical expansion because we are entering into newer geographies with our plants where we had limited presence. So, growth is coming from that side. Growth is coming from the retail side also, growth is coming from the project side also, and growth is coming from both the CPVC and PVC segments also. Right now, growth is coming in all of our product segments across India

and growth is coming from all the different categories like projects, retail as well as geographical

expansion. So, it is a multifaceted growth that is coming.

**Praveen Sahay:** Is it fair to assume that it is largely because of geographical expansion?

**Kairav Engineer:** No, it is a combination of both. Wherever we already had our plants, there also we are working.

Now we are entering deeper and deeper into the smaller towns and villages and we are doing a lot of work on the retail side. Similarly, we have strengthened our project teams also. We are tapping even the small scale projects. We are very aggressive on retail and project even in our stronger geographies. And in our weaker geographies where we are bringing up manufacturing facilities, there naturally we are also getting growth because affordability comes in plus people get confidence that the plant has come, so material availability will be there. So, it is not just

geographical expansion. It is a combination of all the factors.

**Praveen Sahay:** Sir, the next question is related to the CPVC pricing. Can you give some color on that? Because,

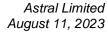
we had seen some softness in that. How you are seeing right now in the month of June-July?

How is that?

Kairav Engineer: CPVC prices have definitely softened. But CPVC prices will not soften like PVC prices have

softened. PVC prices softened one way. CPVC prices usually soften gradually and usually don't go down to the level of PVC prices. Say PVC dropped from Rs. 160 to Rs. 80 or Rs. 75, that way CPVC will not fall because still CPVC supply constraints are there. Local players are there, but they don't have enough capacity to serve the entire market. So, India will continue to remain import dependent for the coming couple of years more. Plus the anti-dumping duties there, which

puts the price of imported CPVC at \$2. So, it is very hard for CPVC to soften beyond a point.





Sandeep Engineer: And the local materials are still settling on their quality issues. It will take time for them to also

settle down on a particular quality which is comparable to the international standards.

**Praveen Sahay:** The next question is related to the Adhesive business, sir. How much is the capacity utilization

currently you are at?

**Hiranand Savlani:** We should be around 65% kind of utilization. But we have put up a new plant at Dahej, which

will increase the capacity substantially. Once that will be operational, we will come to know exactly what capacity we can operate at. Then, I think utilization will come down to almost 40%

or so.

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

Ritesh Shah: A couple of questions. The first is on capacity. You have outlined a new aggressive plan. What

this essentially implies is, are you looking at around 25% volume CAGR for the next 3 years?

Is it something that we are looking at internally to do?

**Hiranand Savlani:** Ritesh, right now, the market scenario is very positive. Q1 numbers are already in front of all of

you. Q2 first 40 days is even higher than the Q1 volume growth. So, it looks that the numbers are moving in the right direction and even faster than what we are expecting. But it is too early

to comment on the basis of the last 6 to 7 months' numbers. But the way numbers are moving,

the way our geographical reach is increasing, the way our team is moving into the smaller cities

in the project sites and all, overall positiveness among the team members is very very high, I can

say. In that scenario, it is possible that we can do that also. But I don't want to unnecessarily

give the commitment at this stage looking to the last 6, 7, or 8 months' numbers that we will be doing the CAGR growth of 25% because 25% is a very huge number, and at a scale at which

Actral is there definitely it is a year, high number. So I don't went to unnecessarily flow the

Astral is there, definitely it is a very high number. So, I don't want to unnecessarily flow the

grapevine in the market that we will be able to do 25% CAGR volume growth in the next 3 years, but yes, we are making ourselves ready for that because initial positiveness is there in the

market. Because of that, we are making ourselves ready, and if the time will come, we should

not be shying away because we don't have any issue to ramp up the capacity. We have enough

cash available with us. So, we are preparing ourselves for that kind of growth. But ultimately, it

is the market which will take the call whether we are going to grow at 20% or 25% or 30%.

**Ritesh Shah:** And sir, just to clarify, when we say this 20% or 25% whatever comes, this is excluding any

government orders whatsoever?

**Hiranand Savlani:** We are not in the government order at all. So, definitely it is excluding the government order.

That is not a cup of tea for Astral.

Sandeep Engineer: We are more focused on the big projects going around in the plumbing segments, in the

infrastructure segments, and in applications which connect to various builders, various projects which are huge projects. But specifically if you see, the water distribution projects by the

government and all, we are not so much there in those projects.



Ritesh Shah:

Sir, my second question is on EBITDA per kg. If I just adjust for bathware losses and inventory losses which I think you indicated Rs. 15 crores, the EBITDA per kg for the quarter comes to around Rs. 37.5. Correct me if my number is a bit off, but against this, you indicated that a minimum of Rs. 35 to Rs. 40 per kg we are looking at for FY24. Aren't we far more conservative? Because, to my limited understanding, Q1 is very heavy on PVC, and as we get out of Q1 the product mix, all the ratios actually improve. So, why this number of 35 to 40? Why can't this number be higher?

Hiranand Savlani:

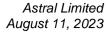
Ritesh, it is difficult to predict the ratio in which direction. If you see the number of Q4 where the ratio was totally one sided in favor of value-added products and CPVC. We were able to deliver even more than Rs. 45 also. So, we don't know exactly which direction the ratio will move. We are always willing to move the ratio in the direction of value-added products and CPVC. But you don't know and I don't know what the market will be at that point of time. So, we have to be very very conservative. We don't want to unnecessarily misguide any of the investor community that this is the way we are going on. Ratio can change at any point of time. In particular quarter, things may change also. And last quarter, even I guided also openly in the call that Q4 you don't consider as a benchmark because Q1 numbers are always tilting towards the PVC direction. So, per kg is going to go down only. So, it depends on how the market is going to behave. If it will be in the favor of CPVC and value-added products, yes, you are right; number can be even much higher.

Ritesh Shah:

Sir, the third question is on bathware. This is for Sandeep bhai. Sandeep bhai, are you happy with the Rs. 5 crore per month run rate? Where do you see this run rate, say 6 months, 12 months, 24 months out? And if you can just help us understand, how will we map this with the number of stores which we have indicated, we are above 500? Corresponding to 500 stores, are we looking at, say 1,000 stores in 12 months? And when should we look at an EBITDA breakeven for bathware as a business in insulation?

Sandeep Engineer:

Basically, the first concept is that many pipe people have come in bathware, but we have come in bathware which we had conceptualized even before that. And we have come with our own production facility which we are ramping up in Jamnagar. All the products in Faucets are made in-house. The ceramicware we are sourcing from the sources which everyone uses, all other competitors. Bathware is something which is not as easy as selling a pipe or a paint or adhesive. It has a product feature design behind it, application behind it, and also the marketing channel, the users, the way we have to market is also different. So, obviously we are going step by step. The good thing is, yes, we have 500 showrooms; we will keep increasing – 1,000 will happen, 2,000 will happen. We are here for the long term, as we have invested in the business and we have a plant here. We are not here for just outsourcing, selling, and if tomorrow doesn't work, make a choice what to do. We are going stepwise. Here, my focus now is that how much repeat orders we are getting. That is very important for us. Secondly, the run rate is always growing, and obviously, I want to see in the next 1 or 2 quarters, it will break even. It will not be an additional burden on any of the businesses. Third, yet to ramp up quite a number of good professional teams which we have started doing it. And in this quarter and coming quarters, there





will be quite a good number of teams in the sales & marketing channel, who will be very aggressive in going to the market, consumers, dealers, distributors, architects, builders. We are on the top. You will see the numbers coming. When we acquired Adhesive, we were a small company of Resinova and you have seen what we have done stepwise. We have not jumped overnight to any level in Adhesives. Paint also we are such a serious that you will see the numbers coming as quarter, but what we want and what I think in every business is to build the base perfectly and then build the building on it. Your work at the ground level should be so strong that the building built on it remains more stronger. And similarly you will see in our Faucets and Ceramicware business one more going that we are coming with an economic range in the next couple of days. The range is called Tresco. And the Tresco range is what we bought the company; they had this range. We have upgraded that to a level which also satisfies what comes from the house of Astral and which will be widely sold in the dealer network as well as the wide consumption at the level where the consumers want.

Kairav Engineer:

I will add to this Ritesh bhai that we are just not making and selling for the sake of making and selling. We have our unique designs, we have our teams that are constantly working on product quality, product launches. Whatever parts that we have used are all state of the art and we are also focusing on making Astral a very strong brand in this segment. We are not just interested in only selling the fast moving and the low end of the spectrum. We have 4 ranges. We want to justify all of our products that we launch. So, we are working on our base. I think in another 6 to 9 months, you will see a lot of difference in this particular segment.

**Hiranand Savlani:** 

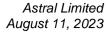
And Ritesh, I am sure you must have studied that in the bathware project business, the cycle is very lengthy. 18-month cycle is there. Today you get the order and the completion stage takes place after 18 months because first you only supply concealed products, then the front product, then the outer products; the process is very lengthy. So, right now, we are preparing a pipeline throughout the project. Actually the number will come only after 18 months because 1 cycle you complete and then only.... And any developer cannot give you 10 projects out of 10. He will test for 1 project. If he is satisfied, then he will allocate a few new projects. So, it's a cycle of projects. We have to pass through that cycle. And that cycle is very lengthy. We are already present in many projects but the number will not be there. Number will take some time because we have to complete that 18-month cycle. And then once they will be happy with our product, then the number will ramp up very fast. We have to keep patience and we have to be waiting for a few more quarters, and then all of a sudden, you will feel that what happened, all of a sudden number, because by that time, you will be completing the cycle. And then, repeat order of new projects and multiple projects will keep coming from the same builder.

**Moderator:** 

The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja:

Just 2 questions from my end; firstly related to CPVC pricing. Where are we right now in terms of, you said there have been inventory losses. So I just would like to know where the inventory losses were more. Was it PVC or was it CPVC or can you give us some sense that how much





prices could have declined and what can we see in the coming quarters both for PVC as well as CPVC from your end?

**Hiranand Savlani:** 

It was not that high losses, Sneha. All put together, I say Rs. 15 crores to Rs. 17 crores kind of that. Not that high losses. Mainly, some portion was PVC because PVC price had fallen. Now PVC has started coming back and it is going on an upward journey, and CPVC price has fallen. And as rightly Kairav said that CPVC prices are not going to fall sharply. Because of antidumping duty, there is always a cap. Because of that, there will not be.... But yes, whatever the prices have gone up above the anti-dumping duty level, that has corrected to the anti-dumping duty level. So, to that extent, some losses were there but not a substantial amount.

Sneha Talreja:

But do we see this price fall continuing in the coming quarters?

**Kairav Engineer:** 

No, because anti-dumping base price you have already reached.

**Kairav Engineer:** 

I think the prices in CPVC have more or less stabilized now. So, we don't see any major falls coming in this particular polymer going ahead. Because there is that anti-dumping duty, majority of the stuff comes into India comes via imports. The people who are selling to India, the Japanese, the Americans, the Koreans, they are strictly abiding to the \$2 anti-dumping duty law. And you can say more than 90% is currently being imported into India. So, I don't think the prices are going to fall further.

Sneha Talreja:

My second question was related to, you answered a lot about demand that demand has been growing at a robust rate and you are also looking at now 3 greenfield expansions versus even the leader has done that sort of expansion, which is Supreme. I just wanted to understand what would have been the industry growth rate in this particular quarter, let's say. And what is the industry looking at? Because, we saw very strong numbers coming in across the players this particular quarter in the plastic pipe space. So, I would just like to get a sense of the industry growth number. Is it that it's only the larger players growing?

Kairav Engineer:

I think it is very difficult to say industry growth numbers because the majority of the people who have reported stronger numbers are more onto the agri side of the business. Two years ago, PVC was at an all-time high. So, the last 2 seasons have been very bad for agri pipes. Now, since PVC reached the rock bottom pricing levels, all of a sudden the demand came from rural India because up till then, that people had shifted from agri pipe to HDPE pipe. Now people have gone again back to agri pipe because agri pipes are significantly cheaper than HDPE pipes now. So, all of a sudden the surge came for the core agri pipe business. So, it is very hard to say how industry has performed because our forte is behind the wall. We are a plumbing brand. Our exposure to the agri side of the business is very negligible. So, we cannot comment on what the competitors are doing or what their future lies. But as Hiranand bhai said, we are very confident that we will continue to deliver as per our guidance in the coming quarters.

**Kairav Engineer:** 

Thank You.



Moderator: The next question is from the line of Nikhil Agarwal from VT Capital. Please go ahead.

Nikhil Agarwal: Good Evening and thank you for the Opportunity Sir, my question was on, we heard that Grasim

is coming up with a plant under a tie-up with Lubrizol. And if I am not wrong, they will be supplying only to Prince Pipes and Ashirwad. So, do you think that they might have a price

advantage over you once the CPVC plant comes in?

**Hiranand Savlani:** I think it is a misunderstanding given to the market. Today also, if you want Lubrizol material,

it is available in the open market. Whether you want resin, whether you want compound, it is available. Even they are approaching us also to buy. We are getting quotations from them also.

It is nothing like that it is restricted to few players. When somebody is putting up such a large capacity, it has to open for everyone. There is no reason that it will be available to only 2 players.

Whether 2 players will be able to consume that much of quantity? It is not possible for the 2

players to consume that quantity. So, I think it will be available to everyone. But let the plant to

come. I think they have given this press release 3 years before also that they are putting up a

plant but nothing has happened so far on that plant side. Again they have released the press release in a similar fashion that we are coming up with a plant, but till today, whatever our

knowledge is that nothing has happened. Unless and until capacity is not coming, unnecessary

putting a grapevine in the market that they will support this player, they will not support to this

player, I think that's not a fair thing. Let the quantity to come in the market. We will see at that

point of time what is there.

**Sandeep Engineer:** They are already supplying a non-branded compound to a few players in India at present also.

These are big brands. I don't want to name, but we are aware of whom they are giving the

compound.

**Nikhil Agarwal:** Sir, are you open to buying the compound or the resin from Lubrizol?

Kairav Engineer: Yes, if they are giving us the right price, then we are open to buying from Lubrizol. There is

nothing wrong in that. We have a very long and rich relationship with them since 1998.

Sandeep Engineer: We will procure resin. We don't buy compounds. And we are open to buy resin from anyone

because we have no compulsion to buy resin from one source. And as our demand is growing and our capacities are growing, not one supplier can suffice that. So, we are open to buy from

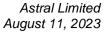
anyone.

Nikhil Agarwal: Sir, I just wanted to know your water tanks monthly run rate. And you have no expansion plans

as such right now in that segment, right?

Hiranand Savlani: Water tank, our run rate has been continuously improving. We will be delivering the number

only at the year-end. We will communicate the exact number because there is no point





unnecessarily to give every monthly number or so. Whenever there is a new product, we give. But now it is already a 2-year old product.

Kairav Engineer: Also, your question regarding adding of capacity, we have made it a rule that wherever we are

building a plant, we are installing the tank machines. So, most of our facilities will have the tank

machines.

Nikhil Agarwal: Just one last question. If you could just highlight on your CPVC and PVC mix in Q1 and FY23.

**Hiranand Savlani:** We don't share all these numbers. We have stopped since last 3 years.

Moderator: The next question is from the line of Deepak Jangid from Purnartha Investment Advisers

Limited. Please go ahead.

**Deepak Jangid:** My question is, as you have announced the capacity expansion, what is the CapEx requirement

year-wise for FY24 to FY26?

**Hiranand Savlani:** FY24, we are expecting to put somewhere around Rs. 350 crores or so. For FY25, we have still

not worked out the exact number, but it should be somewhere around Rs. 250 crores or so.

**Deepak Jangid:** As you have mentioned that for the next 3 years, it might be unnecessary for giving a guidance

of 20% to 25%. As we have grown 31% in the first quarter, what do you foresee for the next 3

quarters in terms of volume growth?

**Hiranand Savlani:** I said that originally we have given our guidance of 15%. First quarter is very robust, and second

quarter started with a very very good number. So, definitely, looking at the current situation, it looks that the number will be very very conservative. So, once Q2 will be getting over, by that time, we will be understanding fairly the demand scenario of the market. We want to understand

whether this is a temporary kind of demand or this is a permanent kind of demand. I think fairly if 3 quarters continuously volumes are improving, that clearly indicates that the numbers are

going into the right direction. So, wait for the Q2 numbers. Then after, definitely we have to change our guidance in an upward direction. That will be happening only in the Q2 con-call.

**Moderator:** The next question is from the line of Shubham Thorat from Perpetual Investment Advisors.

Please go ahead.

Shubham Thorat: I just had one question. You mentioned that we have witnessed an unexpected surge in demand.

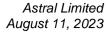
I just wanted to pick your thoughts on what could be the possible demand drivers behind this

surge in demand and how sustainable is this demand?

Hiranand Savlani: I think Kairav has already communicated that the demand is coming from across; it is not specific

to one thing. It is coming from the rural also, it is coming from the urban also, it is coming from the new geographies also, it is coming from the new products also. So, the overall demand

scenario is good. Otherwise, on a scale if you are growing at a 31% volume, it cannot be from





the one sided. And secondly, we are very clear that we are not an agri-dominated company. It looks like the overall demand scenario is good. I don't think that it is any specific region where the demand is coming. We have to again wait for one more quarter. That's what I said to the previous question. So, let's wait for the Q2 numbers. Then after, we will be knowing further about the market. We are also deep diving because we are also committing to use CapEx. So, naturally we have to deep dive the thing so that it should not happen that we will be falling short of the demand or we may exceed too much of capacity and then the demand goes away. So, we are also understanding in deep. Hopefully, by another couple of months we will spend, then we will be having a fair idea about the market and then we will be able to say confidently to all of you. But at this stage, give us some more time to understand the market and let's see. Because, it is not specific to only Astral. Other companies are also growing. Of course, Astral is less dependent on agri. But still, overall the market scenario is good and very healthy for the industry per se. In that case, we are of the view that it should be better only in the coming time. But again, wait for some more months and then we will be in a better position to communicate.

Moderator:

The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah:

I have 3 questions, two for Sandeep bhai. Sandeep bhai, can you broadly touch upon the management structure that we have in place? We had recent promotions also which were there. And I do understand that there have been new appointments at the top level, including CHRO, CTO. How are we looking at the business segments given we have multiple growth engines in place? That's the first question. And the second question for you is, again, is there any specific reason not to be into government orders? If we are not risking receivable days, we can still do the volumes via contractors. Any specific reason not to be over here? Those are the 2 questions for you. And I have a third question for Hiranand sahib. Do we still stick our number for Rs. 1,500 crores what we had given, I think, a year back with a 4- to 5-year time frame. Those are the 3 broader questions.

Sandeep Engineer:

First is, we are not adverse to any government business. We are already doing business through the contracting houses in a big way, only supplying to projects which they take on the government projects because we are in corrugated pipes and we are also in some of those products. But we have not made HDPE or LDPE and we are not in that segment. Most of the projects which have come are basically on the Jal se Nal which is more they use the HDPE or PP pipes, mainly HDPE pipes and in which segment we are not there at present, and we are also not planning to get into that because we are already getting a robust demand for the segments which are there in the infrastructure business of private housings and various projects which you are aware of. That is the reason. And if we have to come, we cannot come alone in pipes. We need to also add fittings with them; that is the reason. We have no adverse things on the government business nor at present we are having the products which are used in mass to be supplied to them.

Second thing, for the senior management at various levels, yes, we have put in place ahead for the IT division, the HR division, and we have a lot of seniors who are there in Pipe division. We



are adding a few also there for projects on various segments which are needed. In a couple of months, there will be more seniors added. To the export division also, we are adding people and also we are going to add seniors required, especially to address the rural markets also.

Coming to the Adhesive, we already have every segment, the 4 segments; in maintenance, the wood segment, the white glue segment, i.e., the industrial adhesive segment, and the last segment is the construction chemicals. Every segment has their heads and they are on the job to do how we can grow. And that is already seen in our growth.

Coming to the Paints, as we communicated that we have already not only zeroed down but seniors and professional people from the industry have joined and are going to join. And at the right time, we will also let you know about the profiles and the way these things we are going to take it ahead.

I have already communicated that in the Faucet and Ceramicware also, we are strengthening the team on a lot of segments, which is needed to ramp up the sales to see that the product reaches every nook and corner of India. And that also, in the next 2 quarters, we will communicate. So, we are strengthening ourselves on the professional front, the manpower front in all the ways.

Now, coming to the third point, I think Hiranand bhai's point is there. So, he will give you the complete....

**Hiranand Savlani:** 

Ritesh, I think I can add further what Sandeep bhai said as far as the government order is concerned. The first biggest problem with us is the consistency. Our company always believes in consistency of growth and consistency of margin and the quality which is missing in this kind of government businesses. Secondly, there is no margin stability in that. Thirdly, receivable is always a challenge. If something goes wrong to the contractor, then there will be always a challenge on the receivable side. Fourthly, these all businesses are seasonal businesses. Particular season they give you the order; rest of the time, you have to wait and watch. And many times government money is stuck, your order gets stuck. So, there are a lot of ifs and buts connected with the government business. That's why we thought that we should not enter into this kind of business. Secondly, we are very happy with the run rate which we are growing. We are continuously growing the organization at a 20% CAGR for the last 10 to 15 years. So, I don't think that even if that portion of the business will go away from us, we have any regret for that. But we always believe in certain principles; and within that principle, this business is having, and there are certain other issues which I can't discuss on the call.

Now, coming to your question specific to me regarding the Rs. 15 crores from the new products. Yes, we are working hard in that direction. And I think all our new products — whether it's Silencio, whether it's DrainPro, whether it's FirePro, whether it is a tank, whether it is a paint — all direction we have done our work. It is only when it will start picking up fast, that is the only waiting time. So, 5-year guidance, whatever we have given, I think we should be moving towards that direction. Even if Rs. 100 crores plus or minus, that isn't going to affect as long as our long-term strategies are clear. Our, I can say, foundations are clear, then I think Rs. 100 crores to Rs.



200 crores plus or minus is not going to affect us because we are not here for 1 or 2 or 3 years. We are here for the next 10 years or maybe 15 years kind of vision. So, I don't see we have any challenge at this point of time.

Ritesh Shah:

Sir, just a follow-up for Sandeep bhai. Sandeep bhai, are we averse to increasing exposure to agri as a segment? The reason to ask this question is we have done phenomenally well on the CPVC side. I am not sure what our market share is on volumetric terms over here, but at some point, growth will become a limiting factor. So, are we open to agri as a segment, say 12 months out or 24 months out to ensure that we continue to grow on volumes?

Sandeep Engineer:

Ritesh, we are completely open and actually we are continuously building capacity on that. I told you we have built enough capacity, but last year what was the demand and this year? I told you a guy buying Re. 1 of material straightaway wants Rs. 5 of material. Nobody would envision 5x or 10x demand would be coming overnight. We bought off-the-rack machines and put them in production in June-July and we are continuously adding machines on that front. So, we are never adverse. We have the highest range of fittings available here. We are already adding machines at every plant and ramping up the capacity.

**Kairav Engineer:** 

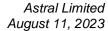
Ritesh bhai, as you are aware that whatever agri products we sell, we want to sell at our price and we will sell at our quality. And in a lot of areas, the contractors and plumbers use agri for drainage purposes in place of SWR. So, a lot of markets agri product is used for drainage and we are selling good amount of agri. But we are sometimes not in the water supply business of agri lines because that is a very very low margin business and it will impact our per-kg margin also. We can easily do that business but then it will affect our per-kg margin also.

Sandeep Engineer:

But looking at the whole scenario, we are continuously ramping up our capacity, as I told. I told about the huge capacity in these 3 plants plus adding in the existing plants. Obviously, so much capacity is not going to come for the plumbing, CPVC, and products, but it's obviously going to even have a good section of pipes in PVC and agri pipes.

**Hiranand Savlani:** 

Secondly, Ritesh, I think I can add a very very critical question that agri business is viable with the profitability only if you are a decentralized company. The more decentralized you become, the agri business becomes very very viable for you. Astral was not so decentralized company. The way our capacity expansion, I think, now in all the 4 zones, our plants are there. Now, new 3 plants are coming. So, now Astral will be at a pretty decent level, I can say a decentralized company. Once you become decentralized, you are going to save a huge cost on freight. Because, agri carries a lot of freight elements. If you are near to the market, your freight element goes away. So, in that case, even agri business is also equally viable because the working capital cycle is very fast in agri. ROCE point of view also, agri business is a reasonably good business. But that is only possible once you become a decentralized company. Now Astral is becoming a decentralized company having 8-9 plants or 10 plants across the country. Then it will become very easy for Astral to ramp up volume into that direction also. We are working seriously on that ground also. And at an appropriate time, we will increase our volume in that direction.





Moderator: We'll move on to the next question that is from the line of Rahul Agarwal from Incred Capital.

Please go ahead.

**Rahul Agarwal:** Sir, 3 questions. Firstly, are duplicate products in the country a big problem? Because, the leader

also mentioned that East India is copying a lot of the leading brands in the country and it has

become a headache to manage. Sandeep bhai, do you agree with this?

Sandeep Engineer: This is going on for years. It has not overnight come. But it is not a headache that hurts the

volumes down or something that. It is going on from years. It is going on from 10 years and even more, I guess. And everyone, we and every company, is jointly or individually taking actions and it is going on. Very swift actions are now taken, a lot of legal actions are taken. If you see newspaper cuttings, we bring it to the notice of the public at large on these segments. And fairly now, everyone is working and everyone is controlling this and it is quite getting controlled. In a few months, it happens and in a few months it doesn't, but basically it is not

concerned with the growth for the business.

Rahul Agarwal: Because Supreme's management mentioned that they lost some volumes and some market share

in East India because of duplication and it was a bigger issue basically versus the past gone 6 months. Hence, I was just checking with you, but I get what you are saying. Secondly, on adhesives. The growth guidance is about 15% to 20% value growth for Fiscal '24. I am assuming this accounts for Dahej ramp up in the second half. But fiscal '25 should see a step jump, right? Because, the capacity increase is very high. Any thoughts on fiscal '25 market share gains and

top line growth please?

**Sandeep Engineer:** It would be obviously better than what we will do this year because of the capacity expansion,

the value which will help us in the raw material cost because of the bulk production and all. So, obviously, with new plants and things will not be working, but we will be expanding and we

will be getting better. But Hiranand bhai can also add to this.

Hiranand Savlani: Rahul, I think we are preparing ourselves for the higher growth, but again I am telling you that

coming 3-4 months will give us more confidence to say that now we are ready and we feel on

the market ground that we can easily grow at this level. But right now, we have given a long-term guidance of 15% CAGR volume for 5 years. I think we will stick to that guidance at this

point of time. And Sandeep bhai also rightly said that after 1 or 2 quarters down the line, value

growth will also be coming back because now the PVC bottom out has happened. Now there is

no further bottom. So, from there, we can see that the value growth is definitely going to go up.

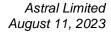
So, keep fingers crossed, wait for some more time to have more confidence from the market.

But at this stage, yes, we are very positive.

Sandeep Engineer: One thing is that whatever we have guided, we have tried to do the best, but especially we have

been very transparent with everyone about the way the businesses are moving, the way we are looking forward, and the way we are changing and the way we have our own vision to take each segment ahead. That has been a very clear communication of what we are going to do and what

is happening and what is exactly done and what is achieved.





**Rahul Agarwal:** Where I was coming from purely from a Dahej perspective that my sense was 15% to 20% looks

conservative, but I get what you are saying. And last question Hiranandji to you on the Gems

Paints. The payments for 51% and 29% buyouts, all these are done? The Rs. 465 crores is net of

debt?

Hiranand Savlani: No, we have not done the payment which we are expecting to be complete before 30th

September.

**Rahul Agarwal:** What is the total payout we should expect?

Hiranand Savlani: Total payout will be somewhere around Rs. 275 crores to Rs. 300 crores for all 80% buyout.

**Rahul Agarwal:** And the balance? You said that contract is like it will be spread over the next 5 years. Anything

specific you would like to share like when does it happen or is it matched to some.... What are

the conditions basically there?

Hiranand Savlani: No, there is no condition. We have fixed a multiple of EBITDA. I don't remember exactly, but

it is roughly about 11x of EBITDA. So, whenever we want to buyout the balance 20%, we have

to pay that multiple. There is no other condition.

**Rahul Agarwal:** The 11x EBITDA is for the year in which you will buyout, that year you should multiply?

**Hiranand Savlani:** Naturally, trailing 12 months.

**Ritesh Shah:** Ok Perfect Hiranand Bhai thank you So much.

**Moderator:** Reminder to Participate any one wishes to ask a question please press a "" and 1.

Ritesh Shah: There are no more questions in the queue. Sandeep bhai, Hiranand bhai, any closing remarks if

you wish to conclude the call now?

Hiranand Savlani: Thank you Ritesh for hosting this call, and thanks to every investor for participating in this con-

call and always putting trust on Astral management and giving us confidence to work hard. We assure you that we will continue to work hard and keep giving you excellent results in the coming

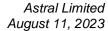
times.

Kairav Engineer: Thank you Ritesh bhai for hosting this call. We will deliver our best in the coming quarters and

you will see the new divisions and the new businesses firing well in times to come. We are very excited for the future at Astral. We will come back with even stronger set of numbers going

ahead.

Hiranand Savlani: Thank You Ritesh bhai Thank you.





**Kairav Engineer:** Thank you Ritesh bhai Thank You.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Investec

Capital Services, that concludes this conference call. We thank you for joining us, and you may

now disconnect your lines.