"Astral Limited
Q1 FY '25 Earnings Conference Call"
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MODERATOR: **MR. KESHAV LAHOTI – HDFC SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Astral Limited Q1 FY '25 Earnings Conference Call hosted by HDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Keshav Lahoti from HDFC Securities. Thank you, and over to you, sir.

Keshav Lahoti: Good day, everyone. On behalf of HDFC Securities, we welcome you all to Q1 FY '25 Earnings Call of Astral Limited. From the management side, we have Mr. Sandeep Engineer, Chairman and Managing Director; Mr. Kairav Engineer, Executive Director; and Mr. Hiranand Savlani, Executive Director and Chief Financial Officer.

I'll now hand over the call to the management for their opening remarks, which will be followed by Q&A. Over to you, Sandeep, sir.

Sandeep Engineer: Thank you. Thanks for joining the earning call of Q1. As you all are aware that the pre-COVID volatility of polymer and chemicals were in the range of 1% to 3% and its volatility is in -- today is in the range of 10% to 20%. In the long run, it's good for a bigger and cash-rich companies and very painful for smaller companies.

But for a shorter period, it gives fluctuations in results from -- for every company. In the past also, we have communicated to all our investors to please see our results on a yearly basis rather than on a quarterly basis because this kind of fluctuations are going to give high volatility in numbers either in top line or in the EBITDA margin levels.

But in spite of so much volatility in raw material side, I'm very happy to say that our team is in a better position and able to manage this volatility and deliver a good 16% volume growth against our guidance of 15% volume growth. So we are very much in line with what we have guided.

Our CFO will discuss more on the numbers, but let me take you to all the verticals of the business. In pipe, we have completed the Guwahati plant and it's fully operational now. Our bigger plant at Hyderabad is ready and trial runs are going on, and we are going to start commercial production in the last week of this month, that is August '24.

Our fitting plant at Ghiloth is on the verge of completion, and we are expecting to start the production in Ghiloth plant for the fitting from next month, that is September 2024. We have put 22 injection molding machines in Phase 1 and another 22 injection molding machines will be installed in Phase 2.

Dholka, our expansion of existing plant for additional machines for pipe is in full swing, and we are expected to start the production from Dholka from October '24. Regarding our Kanpur plant, construction drawings, plans are ready, agencies have been appointed, and we are awarded the construction work to a company which is starting the project work from the end of this month.

Regarding new projects. We are planning to enter into OPVC and Pex pipes. Our -- for both of the products, our machines are ordered, machine orders are placed. OPVC trial production will start from October '24 and Pex will start in next year -- next fiscal year second quarter. Regarding bathware business, we are progressing very well. As communicated earlier, this is a new vertical for us, so we will go slow, but as we have guided earlier, we will be doing net sales of 100 -- anywhere between INR100 crores, INR125 crores for this fiscal.

Best part of the business is that all our customers who have used this product are -- as well as the plumbers who are fitting the products are all appreciating the quality of the products, so our confidence is going up for this vertical and this business.

We are also adding new SKUs in the vertical and we are foreseeing a good growth coming from these new SKUs in the bathware division. Regarding our Adhesive business, it is going as per our plan. This quarter also, we have a very healthy growth of 14%, while the industry was growing very slow. It's not only the growth, but we have also delivered a very healthy EBITDA margin in our adhesive business at 16%. Our rural initiative in this vertical will give us further growth in the coming years, and all the products are very well accepted in the rural market.

Regarding our U.K. operations of adhesive. This quarter was not good. It delivered a negative growth of 5% in top line and 2.5% in the EBITDA due to the elections and slower growth in the geography. We are closely monitoring the same and will work out plans to come back quickly on the growth path. We are confident that from Q3, we will be coming back to the normalcy of its business and to the plan -- as per the plan, which we have made for the business.

Regarding paints, we would like to inform you that we have launched Astral Paints in last week of June and opened Gujarat and Karnataka market. We are understanding the market and slowly we'll open a few more states. The uptick in numbers will start from Q3 once we appoint sizable numbers of dealers for our brand.

On a consolidated basis, our growth is good. We are seeing the future of the building material industry is very good in India, so we are confident that we will keep doing higher than the industry growth and keep gaining market shares in the coming time.

I will now request Hiranandji to take you through the financials, and we will take on your more questions on the business or whatever clarities you want in our question-answer session. Thank you very much.

Hiranand Savlani: Thank you, everyone, for joining this conference call of Q1 number. First of all, I want to take you a few numbers, and then we will give you the explanation of each vertical wise what was there in the quarter.

So the plumbing business last year was INR938 crores, which has gone up by 8% to INR1,013 crores with EBITDA of 17.94%. Of course, this EBITDA is including other income. So we are giving numbers in that way, that's why I'm putting this number. Adhesive business, India operation, last year was INR210 crores with 16% EBITDA margin, this year is also INR240 crores, so almost 14% jump. Though the industry was very slow or adhesive, but our company has delivered 14% growth, with the same EBITDA of 16%. So we've maintained the EBITDA in the category.

Our U.K. operation was a little bit disappointing this quarter. Last year, it was INR94 crores. This year, it has delivered INR89 crores, so almost negative 5%. And the EBITDA last year, it was 8%, which is now 2.5%. But as Sandeep bhai said, we are working on that. In fact, we were expecting some improvement, but it is getting delayed because of, so reasons already mentioned that elections and slowdown in the economy, which has resulted in that, but we are working on few initiative, which will give us the growth back to the Q3 number onwards.

Paints, last year, it was INR40 crores; this year, it is INR42 crores, so almost close to 4.5%, 5% kind of growth. EBITDA margin last year, it was 17%; this year, it has come down to 10%, mainly because of the new launch of Astral Paints. So for that, we did a couple of big bang dealers meet in Bangalore and Ahmedabad city, and we have appointed a lot of new staff for the Gujarat region and the Karnataka region and because of that, we have to spend additionally INR2.5 crores to INR3 crores. But this amount is INR3 crores, but if we have work out on the top line of INR40 crores, it is working out to be 7%.

So that's why it looks that the EBITDA margin has dropped from 17% to 10%, but actually, it is not like that. So gross profit margins are maintained, but it's the only challenge is that we will spend this amount that's why it looks -- that's why our EBITDA margin has dropped.

So overall, on a consolidated basis, we've grown 8%, and which is a very healthy growth under the circumstances where the polymer price were very, very low in the industry. The gap between the volume and value was 8% because of this lower polymer price and that has resulted into the -- a little bit lost into the EBITDA side also.

Now I'm coming to that also. First off, we want to discuss about the gross profit margin. The GP has improved during the quarter, all-time high of 40%-plus, so we are having no challenge as far as the gross profit is concerned, but it is not fully converted into EBITDA, mainly the reason we have communicated in the press release, that is mainly because of the employee cost and the other costs, which has gone up.

If you see the GP1 on the per kg basis also, I think we have maintained a little bit improved also on a per kg basis, so absolutely, we are on a right track. Q1 is always slow. Cotton and polymer price were low, so the gap was wide between the volume and value, that's why also percentage EBITDA has come down.

If the value and volume could have same, then the percentage EBITDA could have been much better than what we have delivered. We are quite confident that in coming quarters, this cost will come down like other costs and employee costs also because our seasonal quarter is going to start now. And as mentioned that couple of events were together in the Q1, particularly the ICC cricket and the IPL because of that, our extra INR20 crores cost was there on the branding, advertisement and exhibitions and all these things, but these costs will not be a regular kind of cost.

So we will stick to our annual budget, which we normally give and which is normally in line with the growth of the business. So we assure you that on a full year basis, this number will be in line with the growth of business. So we should not worried about this cost, because this is the one of the cost of a particular quarter, and that is loaded on a lower quarter, that's why it is looking in a percentage term very high, but this is not going to be the case on a full year basis.

Secondly, in the second half, normally, we have seen the element of CPVC will be high. Value-added products will be high because our seasonal quarter is normally Q3 and Q4, so that is also going to give us a more advantage in terms of margin. Q1 is always -- in the historically last 10-year number, you see it is loaded with the more of PVC products, then the CPVC and the value-added product.

So that is also one of the reasons that some pressure will be there on the margin. But otherwise, in the coming time, second half, it is going to be in a much, much in a positive direction. Secondly, we are also expecting that the BIS norms and the antidumping duty on PVC, which is already on the car, which may come in Q3. So that is also going to support on the polymer price in the second half. And second half is always peaked in our industry. So that is also going to add further support to our volume and you can say the advantage on the margin side.

In the month of June, PVC price substantially gone up. But that pass-through doesn't take place because the industry side, everyone was finishing the quarter and no one was passing through to the market. Everyone was expecting that from July onwards, we'll pass through to the market. So because of that, everyone was expecting that the top line should improve and equally, some inventory gains should also be there in the system.

But actually, the pass through doesn't take place in the industry, no player has pass-through in the industry, so because of that, there was no inventory gain. Otherwise, the kind of price rise was there in the PVC, that could have been an inventory gain. So there was no inventory gain for us also.

As far as the bathware is concerned and paint is concerned right now, we are spending more money, that's why it looks that the margins are low. And similarly, the market still it has not reached to the breakeven point, so that is also reducing our EBITDA to some extent. But the way we are seeing the growth in the bathware also, and once the all launch will be over for the paint, we may open up one or maybe max 2 state in the second half in the paint also.

So then after, I think it will be a substantial growth into that vertical also, and that is also going to support us with the additional EBITDA. So lastly, as Sandeep bhai said, we are always giving the guidance of full year basis. One quarter will not be the right method to do the evaluation on all the parameters, somewhere top line will be there. Volume will be missing, EBITDA will be high, EBITDA will be low. This kind of things will keep happening on a quarter-on-quarter basis.

But our annual guidance, which we have given 15% volume growth, we are maintaining that. If any change will be there or any plus or minuses will be there in the system, we will be communicating to you in the coming quarter. But right now, we are confident that on a full year basis, we will be maintaining 15% kind of volume.

Thank you very much. And with that, I want to open the floor for Q&A session.

Moderator: Thank you very much. Our first question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir, this 15% volume growth that we are seeing, I think previously, we are looking at 15% to 20% kind of a range. So given the fluctuations in the PVC prices, so is it possible that maybe the second quarter onwards, we can -- there is a chance to revise this upwards or 15% would be kind of a max that right now we are looking at? And also now particularly July, how was the kind of a demand or maybe if you can give some idea in terms of the volume, how was it?

Hiranand Savlani: So like you see the history that whenever the polymer price goes up, the demand picked up. It is not a genuine demand, but it's a stocking demand. So the genuine demand will be the secondary sales. Primary demand keeps coming up and down. So whenever polymer price goes up, primary demand goes up. Whenever polymer price come down, primary demand comes down. So that is the normal phenomena. And to some extent, secondary also get affected with the price fluctuation.

So we have seen in the past also, whenever price has gone down, the demand has come down. But the moment INR1 or INR2 or INR3 polymer price goes up, the pent-up demand come back. So I think on the basis of 1 month-or-so, it is very, very difficult for anyone to predict what is going to be there for the full year basis. But that is why we say that right now, we are sticking to this volume, right? If any change will be there, genuinely any uptick or slowdown will be the last year also, you see we guided 15% volume and on a half yearly basis, we revised the guidance to 20% and we ended with 25%.

So we are very, very sincerely communicating to our investor the reality of the market. This year also, we have not given the too high guidance. We have given only 15%-plus kind of guidance because we know there is a highly volatility will be there in the market.

Otherwise, we could have guided you more also, but we don't want it to do that way. That's why we have given the guidance 15% clear. 15% can be 16%, 17%, 18%, 19%, 20%, anything, 15% to 20% number. So we have to see how our peak quarters are going to perform. If our peak quarters are going to give us a good result, then I think should not be any problem, we can achieve even more number also then the 15%.

So 15%-plus guidance we have given, so we have stick to right now that. As far as July is concerned, yes, you are right, absolutely, July is slow because the polymers are coming down and another INR2 to INR3 everyone is expecting that the price will go down. And that is already reflected in the Street and every dealer and distributor know the Street. But beyond that, seems difficult to go down immediate basis. And if anything positive comes out on the BIS side or antidumping duty side, there are high probability the polymer price starts going up also.

Similarly, the antidumping side of CPVC also can support in the increase in the price in the coming time also. So these all are subjective, and that is the region we have given the range. So it is very, very difficult to monitor on a quarterly basis. But on a yearly basis, yes, we are quite confident that we will be delivering 15%-plus.

Shravan Shah: Okay. And secondly, in terms of Q2, is there a possibility that we can see the inventory losses?

Hiranand Savlani: At this stage, we don't see any inventory losses. If further polymer goes down, yes, there can be a probability of loss. But at this stage, when I'm talking to today, it doesn't look that the inventory losses will be there.

Shravan Shah: Okay. And a couple of data points. Bathware Q1 revenue and EBITDA loss was how much? And capex, how much we have done and for full year, we were looking at INR300 crores to -- that remains intact?

Hiranand Savlani: So bathware, we have already given in the press release, we have done close to about INR26 crores of revenue, which is Y-on-Y basis, if you see, it is a 90% jump, but that is not the right way to evaluate 90%. It looks a very good number. But the base is very low.

And as far as the capex is concerned, we have not done any capex into the bathware side because Sanitaryware is completely outsourcing and as far as the Faucet is concerned, already our Jamnagar plant is operational, so we have not done any capex. And we have not given a guidance of INR300 crores, we have said we will be -- Sandeep bhai also said in the initiative remarks that we should be doing between INR100 crores to INR125 crores of revenue this year.

Shravan Shah: No, no. I'm saying the full year at company level, consol level in terms of the capex guidance. So...

Hiranand Savlani: capex guidance will be somewhere around INR350 crores on a full year.

Shravan Shah: Okay. And then in bathware this quarter, how much EBITDA loss?

Hiranand Savlani: It is very difficult to work out exact loss because earlier it was a separate segment, but now our plumbing product fittings where we are using the brass element, we have started manufacturing this all brass rings in-house in our Jamnagar plant. So now that is clubbed with the plumbing business. So very difficult to arrive the exact number, but it will be very low.

Sandeep Engineer: It is very, very, very low. And there is no capex going to be done in the bathware business for this whole fiscal, we have enough capacity.

Shravan Shah: Okay. And lastly, sir, on the Paint for full year, how much revenue we are looking at and in terms of the margin, I think previously, we said 14%, 15% kind of a margin, so that -- for FY '25 it remains the same?

Hiranand Savlani: So this year, margins will be a little lower as I communicated in the first quarter also because of launch and all employee costs because our revenue has not started, but expenditure have started. That's why our margin has come down. And second half also 1 or 2 more states may open. So in that also will take some initial costs, but we will be maintaining double-digit kind of margin.

Shravan Shah: And then revenue for full year Paint?

Hiranand Savlani: Yes, full year, I'm telling you a minimum 10% kind of margin we are targeting.

Moderator: The next question is from the line of Sneha Talreja from Nuvama.

Sneha Talreja: Just a couple of questions from my end. In fact, an extension to the previous question on Paints. Given that we've just launched it in Gujarat and Karnataka, how are you looking at further launches? And what kind of revenues can we see maybe from 2 to 3 years' perspective in this particular division?

Sandeep Engineer: We have launched in Gujarat. And Gujarat also, we just launched a month back, and we have got a good amount of traction from the market, we have already 40 big dealers who have started stocking and selling Astral Paints. We are opening Rajkot from this month, and then we are opening Baroda, Surat from this month. And in next 1 or 2 months, we'll be also opening in the North Gujarat.

See, the paint, one thing you understand is a paint we are going with the direct-to-dealer model also, which is there for what -- when we bought Gem the same model was there. And direct-to-dealer model takes some time to get established. But the sale in first 15 days itself for Astral Paints was very good.

We'll quantify some numbers on this from next quarter for Astral Paints to make it more clear and clarity. And then in the next 2 months, we'll be opening 2 more states, which we have -- we want to finish Gujarat, go to Rajasthan, then go to Maharashtra. So we will be going in phases of 3 months, 3 months, 2 months to open 2, 3 states, then consolidate the position in 3 states in the Western Zone and to work more on the Southern part where Gem is present.

And you will always -- we are targeting a growth of at least 15% to 20%, 15% minimum from the level which we were last year. And as EBITDA, already Hiranandji conveyed, the EBITDA margin would be maintaining double digits. We will have certain expenses to cover up the market to create the market and to grow the market. But the response is positive. The product is well.

We have done a lot of painter meets in Ahmedabad, in Rajkot and there is a lot of positiveness from the painters about using Astral paints. And the response is also very positive in the rural markets where we have gone with our paints. Our segment covers all the paints. We have the oil paints and the normal paints, which can be sold in the rural market.

So the market is very positive. But as I would always tell when we acquired Resinova, the market and everyone got impatient about the competency and the way we would have deliver. Now when adhesive is you see the way we have grown, the way we have delivered, the way we have created new markets, new products. We would help to trust and give us time, but we'll not derail anywhere in the business. We would not burn our capital behind the business. We will not show capital behind the capex here without understanding. And we will always be in a positive mode on growth and margins and keeping margin intact at a level we will keep growing the same.

Sneha Talreja: Understood. So that was pretty helpful and detailed answer. Just second question from my end was related to pricing, especially CPVC. Of course, we see PVC being volatile. CPVC, there were a lot of price hikes, which were anticipated. How is that panning out? Is it still have an anticipated more are we passing anything on? And moreover, how the inventory levels at the dealer distributor level. This was the last.

Hiranand Savlani: So PVC price so far is stable. There is no much volatility, but there are high CPVC -- CPVC price is stable right now, but there are high probability that because of this antidumping revised rules, there are high probability that the prices should go up. But because the PVC price has fallen that the industry is under that a little bit worried that CPVC may not go up. So because of that, no dealer or distributors are happy to keep the inventory.

Everybody is in a watch-and-wait mode. The moment, some uptick will start then everybody will rush to do the stocking. But at this stage, very light inventory in CPVC in the market, and everybody is worried what will happen. Like PVC, nobody expected so sharp fall will be there.

So because of that, right now -- and secondly, it's a rainy season also. So normally also the demand will not be that high and quarter is always lean. So that is also one of the reasons. So I personally feel that from September onwards, things should start moving and prices should go up. But right now, it is a stable and there is no price uptick.

Moderator: The next question is from the line of Rahul Agarwal from IKIGAI Asset Management.

Rahul Agarwal: Sir, 2 questions, firstly on adhesives. Obviously, consol number looks lower. You explained that India was 14% to 16% margins. Wanted to know your overall outlook for the balance 9 months. In U.K., you have already said what do you expect, but India, what will you expect in terms of growth and margins? And on a consol number for adhesives, what should be the margin we should work with? That's the first question.

Hiranand Savlani: So I think India, we are expecting to maintain the similar margin for the balance 9 months. And at the same time, we are expecting 15% to 20% kind of growth. As far as U.K. is concerned, U.K. full year, we were expecting 8% to 10% kind of growth on a full year number. But we have to reevaluate the things, how it is going to span out because second half, we are expecting a lot of new things, development is happening, so it should definitely going to give us a good number.

For the full year basis, we are of the view that U.K. should give us minimum 8% to 10% kind of growth. And margin side, we are expecting somewhere around 7% to 8% minimum EBITDA should be there. from the U.K. And if the second half will be better, it can go up also.

Rahul Agarwal: Got it. That's pretty clear. And secondly, last question. On the opex side, so I completely understand the explanations given on higher branding costs for about INR20 crores for the quarter. But last year, if you remember that both the staff costs as well as other expenditure grew pretty high, I think it was 35% higher Y-o-Y, about INR250 crores for the full year. If you could guide us for the run rate ahead, that would really help. Like how should we build the growth?

First quarter, I understand it's up again 25% Y-o-Y, if I add up the staff cost and the expenditure. But some outlook on how should we look at staff costs and other expenses on a run rate basis going forward?

Hiranand Savlani: So see staff cost at all has gone up mainly because top line growth was affected because of the lower polymer price. Now hypothetically, if the polymer price goes up by 8%, 10%, then the percentage term will not be big gaps, what we are seeing today.

Secondly, then normally, whenever you are adding the new verticals, new plants, like my Hyderabad plant is not giving any revenue to me, but my all complete staff is appointed over there and cost is already started incurring. So that number will come at a later stage. But I have to incur the costs in advance. Same thing Paint also, we are expecting good number in the coming quarter. But I have to appoint the staff where we need one, I have to train the staff.

So all these costs we have to incur for the new verticals, new plants, new geographies, like East and all that market, we have taken the entry. So there also, we are increasing the manpower span, so these all will definitely going to benefit the organization once the number will start flowing. But right now, the top line is affected because of the polymer that look that staff cost is very high.

And definitely, it is high on this lower top line. The moment the top line will start coming, I don't think it is going to be more painful in the coming quarter. And secondly, this quarter is a very lean quarter also. On that, definitely, it is looking very high on the percentage term. But otherwise, if you see on a quarter-on-quarter basis, it is not that high. If I'm comparing Y-o-Y, which is, yes, it is very high. So please wait for some more time. When the polymers will start going up for 8%, 10% also all the number will be changing.

So our way of looking is that our gross profit margin should not be affected. So gross profit margin, not only it has gone down, but on the quantity improved to some extent. If you see per KG also, it is maintained or little improvement. So we are not too much worried on the employee cost at this stage. But if the growth will not be there, then definitely, it is going to be a decremental. But we are having confident that in the seasonal quarter growth will come back. There is no reason that India overnight will something happen to the country.

So we are very positive. As far as other costs, I have already given the explanation that we are seriously looking into that and on a lower base and a couple of even become together only and these events are booked long in advance. So sometime it happened that in the same quarter, this happened. But in the coming quarter, it will substantially come down also. So on a yearly basis, it is not going to affect much. So we are quite confident on a yearly basis, whatever the branding budget or promotional budget we have given it to the team, we will stick to that budget only.

Rahul Agarwal: And sir, just to follow-up. What I'm saying was first quarter basically has the lower staff cost and other expenditure. If you look at the full year trend, if you go past history for Astral, should that be similar this year also?

Hiranand Savlani: So like whatever the percentage you are seeing last year, I think on a full year basis, more or less, it should be in the same range.

Rahul Agarwal: Actually, I was referring to the absolute numbers, but I get your point, sir. I'll get back in the queue.

Hiranand Savlani: No, you can separately also call me on a specific number.

Moderator: The next question is from the line of Pujan Shah from Molecule Ventures.

Pujan Shah: Sir, you have been like mentioning from few press releases about the OPVC and the segment we wanted to grow. And in our investor relation con-call as well, we have explained about this OPVC to develop technology while indigenously we have been developing this technology. So could you just give a glance how we have been -- is it this first mission is being imported or we have been indigenously developing with any kind of association with any company? How we're looking into it and how forward we have been planning to grow this segment? And what could be the potential plans for next 2, 3 years?

Hiranand Savlani: So OPVC, yes, we have guided that this will be our indigenous technology. We have not outsourced this technology. So it will be completely in-house. And to start with October, November and December, 3 machines we have lined up. So initially, the capacity will be close to about 7,000 to 8,000 metric tons. We have -- once the machine will be there and actual operation will be there, we will come to know exactly the -- how the capacity is going to work out, but it should be somewhere around that level.

And if we get good response and success, then we can expand very quickly. So we have to see how it is going to work out. And definitely, it should be price wise, it will be very, very advantage to us, and that is going to help us to grow the market very fast. As far as market is concerned, market like this product, and a lot of inquiries are getting floated in the market.

And the moment we will start immediately the demand should come. That kind of inquiries are there in the system. So keep finger cross. Once everything settled down and we start selling into the market, we will be in a much, much better position to guide you what exactly is going to be there, what kind of the realization will be there, what kind of profitability of that business will be there. But at this stage, it looks very good, and it's a very, very promising product for the country per se, I can say. So it is going to help every player in this industry.

Sandeep Engineer: And there is no technology or license fees, which we will have to pay or no royalties. It is a jointly developed technology as we did in our Silencio Pipe or in our DP Pro pipe. And secondly, we will be making all fittings also in-house. We will be not dependent on anyone to source fittings or pay any royalties or long-term things, and it will be purely -- everything would be owned and run and done by Astral itself.

Pujan Shah: Sir, just to confirm, you are saying jointly developed. So we have been associated with any company -- company or it is just...

Kairav Engineer: We are associated with a technical partner, but we are not at the liberty to disclose from where we are sourcing the machine on what the technology is for the obvious reasons.

Pujan Shah: Okay. And sir, like we know that the value of the technology will follow from the best and even though I just wanted to look into -- if you look at the best country and even China, so how they have been shaking out in this piping segment specific? And is there any.

Sandeep Engineer: You are asking that how China is shaping up with this type of things, but we are not aware, nor are we anywhere involved in anything to be bought from China.

Pujan Shah: Sir, I didn't get you.

Sandeep Engineer: You are asking that how China is shaping up with this type of things, but we are not aware, nor are we anywhere involved in anything to be bought from China.

Hiranand Savlani: Operator, this voice clarity is missing. We are not getting the right voice. Somewhere something is missing. So can you check the line?

Moderator: The next question is from the line of Nitin Jain from Fairview.

Nitin Jain: Thank you for the Opportunity So the volume growth that you have reported this quarter is quite good. However, if you look at the volume-value gap, which you indicated, it's around 8% for Astral. So it's a little higher than what our peers have reported. So if you can elaborate on that and how we see this gap closing going forward? And also, like in the last 2, 3 quarters, this is just an observation, like there has been a recurrence of one-off expenses like the Jaipur event, then around INR20 crores on pending in this quarter.

So these are -- I think they're impacting the margins. So where do we see this recurrence? Do we see it subsiding going forward? If you could elaborate.

Kairav Engineer: Yes, yes, all this will subside. See, we have already changed our branding strategy. We are moving out of and have moved out of the brand ambassador model. So we are saving money on the brand ambassador side. We are saving money on the TV ad side. We have moved out of the TV ads also.

We are focusing mostly on the on-ground activity and cricket. And in cricket, IPL and World Cup, both the events happened in the same quarter, now that is not in our hand because we have a tie-up with both of them. We had a contractual obligation to fulfill, so we had to do it. But then going ahead, going further, there are no major such events in plan. So obviously, the cost will come down.

Nitin Jain: Okay. So on a full year basis, it will be the same is what you're trying to say?

Kairav Engineer: Yes, it will come down only. It will not go up. There are no major events. Now only the events that are going to come up will be the major exhibitions and such things, which are essential for trade. No other big bang activities are there in line, we have already finished them majorly.

Sandeep Engineer: In the mode of stick into our budgets and guided figures. So be assured by the fiscal, it will come down. But by the fiscal end, it will be in line with everything what has been guided.

Nitin Jain: Okay. Fair enough. And if you could clarify on the volume-value gap, like for Astral it is 8%, but the peers have reported much lower numbers. So if you can elaborate on that?

Hiranand Savlani: So basically, normally, what happened that first quarter, as far as normally of a CPVC driven more company. But the first quarter is always loaded with the more of PVC product. And we open up the plant in Guwahati and just Cuttack where right now, the more of sale is coming from the PVC side.

So because of that, overall, it is like that. And the PVC also, if you see Q1 and Q2 was Y-on-Y basis substantially low. But June only, it started picking up sizably, but that could have been passed through to the market. So that was the reason that the gap was wide. But going forward, I don't think in the coming quarter, the PVC will be high. CPVC will be more. So because of that, that gap will be narrow.

Nitin Jain: Okay. That's helpful. And just a follow-up on what you indicated that you were unable to pass on the prices like most of the industry players, was it because of increased competitive intensity or how is it shaping up?

Hiranand Savlani: So normally, what happens that everyone was sitting with the old inventory. And secondly, quarter ending was there. So everybody was of the view that from July onwards, we will increase. And all the big players were of the view that we don't want to the market. So because of that, and then the July already, naturally PVC price come down. So normally, in PVC business, it doesn't happen like that so quickly, it goes up and so quickly, it comes down.

Normally, stabilized for some time and then either it goes up or it goes down. But this is the unique things we are seeing for so many years, we have never seen that in 1 month, it is going up by INR14, INR15, and the next month, it is coming back to another INR11, INR12. This is not a normal phenomenon. So because of that, every one before it gets digested, it gets reversed. Otherwise, these kind of things we have not seen in the past. Normally pass-through takes place within a week's time or max to max 10 days time.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar: Sir, my first question pertains to your volume growth again. I understand that we are majorly into plumbing and some part into DWC or infra. So could we get some kind of qualitative or quantitative colour as to how much our volume growth has come from plumbing and how much from Infra this quarter? And secondly, also, how much from urban versus Tier 1, Tier 2, et cetera?

Hiranand Savlani: I think we don't share, Sonali, these kind of number in the calls, neither in the personal meetings also. These are the confidential things we don't discuss in the market.

Sonali Salgaonkar: Okay. Fair enough, sir. Sir, my second question is a bit strategic in nature. This is regarding your new products and verticals. Sir, we understand that you have started into Bathware via Greenfield and Paints via an acquisition and then developed on that. So as of now, how much would be the distribution overlap of these individual new verticals with your core pipes business? And so how many more quarters do we foresee this added promotional cost to continue to strengthen our own brand?

Kairav Engineer: So Bathware has a bit of an overlap with the piping business. I would say about 50% to 60% of our retailers sell Bathware product. So right now, our distribution channel and our retail channel has gladly accepted our Bathware product and the numbers are moving in a very positive manner, and we will only grow up on them.

When it comes to paints, there are -- there is a bit of an overlap between Paints and Adhesive side. There is not a major overlap between the paints and the piping side of the business. However, there are a few piping distributors of ours who are into project business and into industrial business, who have shown their willingness to stock and sell this particular product line of ours.

So that is also a very positive sign for us. And with regards to promotional spend, see, we are not doing major promotional spend in either of the 2 divisions, neither in Bathware nor in Paints. The promotional spends are basically mostly the exhibitions that we have to do for the Bathware product because it is a touch-and-feel kind of a product. And for Paints, it will be mostly painter meets and meeting the influencers who are going to test and experiment with their product. So that is -- both of these are very essential for these businesses.

And this is the only thing that we will continue. We are not looking to do any big bang branding campaigns or spend a lot of money buying these 2 businesses as of yet.

Sandeep Engineer: And I would like to correct. In Faucets, we did acquire a plant at Jamnagar which has a good capacity, good product, a latest plant also and with a good product line and which could help us to take all our Faucets till now. But it was on an asset value base. So we never paid for any brand value or anything else. So we got it at a good price and we have our own plant at Jamnagar.

Sonali Salgaonkar: Understood. Sir, very helpful to know. And just lastly, I wanted to clarify, are we or have we been a part of Nal se Jal so far?

Sandeep Engineer: For our PVC product, yes, we have supplied and we are in a few states supplying 2 good contractors. And it's a PVC-based product line which we have...

Kairav Engineer: But it is -- it will not be a sizable business for us because we are selling it our quality and our price. So it is not -- Nal se Jal is not a sizable business for us. We are only selling to the selected contractors who are buying it at our price, our terms and our quality.

Sonali Salgaonkar: Sure. Sir, as of now, say, in FY '24 or Q1, whatever you choose to let us know, what would be the revenue accretion from Nal se Jal? And maybe ask which states are we a part of?

Hiranand Savlani: So Sonali, it will not be possible for us to give the exact number because we are selling it to our distributor. And from distributor, it goes to the contractor or maybe site or maybe project directly, which is very difficult for us to know. So we don't know exactly what will -- and even if that number will be then it will be very low. It will be very miniscule.

Sonali Salgaonkar: I understood Sir, Thank you & all the best sir.

Moderator: The next question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: I have only one question that too related to your overall -- for the quarter overall gross margin. So gross margin of 40.5%, which you had delivered for a quarter. So how you see this number the way forward? Would you be able to maintain this? Or is there any one-off there in this quarter? Or you will see this to improve in the down the next 3 quarters because your seasonality is there in the second half?

Hiranand Savlani: So as far as improvement is concerned, I don't think we are already sitting on a very high margin. So there is no point to improve further from here. Even if it is coming down around 2%, it's fine to us. But again, further improvement. I don't think we have a mindset to do like that. Rather, we will be more focusing to grow the business in the margin of GP. So we are at a very, very healthy margin. So our normal range is moving between 36% to 40% kind of zone. Precisely, now it is 40%, but other 36% to 39% kind of zone. So I think we will be happy with that kind of gross margin, but we'll be more interested to grow volumes...

Praveen Sahay: Sir, any one-off is there in this quarter or no?

Hiranand Savlani: Which one?

Praveen Sahay: Any one-off is there in the gross margin for this quarter?

Hiranand Savlani: No, there is no one-off.

Moderator: The next question is from the line of Shubham Agarwal from Axis Capital.

Shubham Agarwal: I have 2 questions. One is, can you quantify the onetime cost and the cost hedge? So just to summarize, you've spoken of them over the call, but if you can summarize what were the onetime cost in Q1 FY '25?

Hiranand Savlani: So like the main onetime cost was INR20 crores for the branding, advertisement, exhibitions and debt-related additional costs work there, which Kairav also explained. And I also initial remarks said that because of few events will happened at one time, that's another additional INR20 crores we spend into that.

And to some extent, will be on the employee side also, which is very difficult to quantify exactly, we have not done the working but some portion will be into that side also. But an employee at all will be normally in the routine part of the business. Whenever you are doing any new activity, new vertical you are opening new markets, you are opening new plant you are opening, you have to incur these kind of things and then the revenue follow later stage. So the major chunk was, I think INR20 crores on the branding side and advertisement side and another few crores maybe on this employee side.

Shubham Agarwal: Right. And this is INR20 crores is after considering the savings, let's say, that you would have done because you were not doing what you say those brand ambassador-related spend. Despite that, you spend INR20 crores extra is what you're saying and this will normalize over the next 9 months?

Hiranand Savlani: No, no, no. Brand ambassador and all contracts were there. So that cost was already there. So new cost of Kairav said that the brand ambassador will not be there. Whatever the existing recurring cost -- because we are -- we have to pay that in advance. So that will not be the reduction into that side. But future will not be that cost. So to that extent, it will be a saleable saving on the company side...

Kairav Engineer: Also, I would like to add that last year, whatever we had the one-off event cost and all that also will not be there this year. Whatever we have our 25th anniversary celebration event cost, et cetera, that also will not be there going ahead in this year. So that all cost will also be removed.

Hiranand Savlani: And that is why we shared in the initial remark that you wait for the full year number. Definitely, you will see that the cost will be only in line of the growth only, not going to be high on a full year basis.

Shubham Agarwal: Right, sir. I'll just move on to the second question, which is regarding the pipes business. So what I understand is that the whole -- as you mentioned that the industry was sitting on old PVC inventory and then they did not pass on and at the same time, we are also hearing that the growth was subdued in June '24. So is it right to say that there was some kind of caution in the industry players with respect to the volume growth of PVC pipes? That the preferred volume were increasing passing on the price increases to market? Was there some kind of ambiguity with respect to the volume of the demand in June and how is it fared on July and August?

Hiranand Savlani: Normally, what happened in the month of June in a phased manner the prices go up. So in a normal circumstances, also normally every company gives 1 week to 2 weeks time to the distributor to manage the inventory, okay? So everyone might have thought that even if we are going to increase the price, we are going to get the benefit for 1 week on an average.

So that is not going to affect too much to the company's profitability and everyone was on the quarter ending phase. So everyone was of the view that unnecessarily disturbing the price on a quarter ending period is definitely going to unnecessary create problems within the distributor. So industry do not part of that thing, but that is not the regular kind of phenomena.

Kairav Engineer: And to add to Mr. Savlani that in our market, if the giants do not pass on the price after a PVC rise to the market, then we also have to follow the same because we cannot work in the opposite direction.

Sandeep Engineer: Basically, any price rise, it is very simple Price rise in PVC takes a few days to pass on. But as we forget about passing on the price rise, we don't say we have not passed on. There was a sudden product price, which has come down. And because the reason is that a lot of PVC, which was earlier booked by traders at a lower price, all the material came together. And that material, they wanted to offload for their capital journey. And it all happened very fast.

Otherwise, if you see the way the PVC is globally and if you see the way the PVC raw materials are bearing, there is no reason the price has to come down. We had a detailed meeting with the

India's biggest PVC producer and he explained that there is no reason looking to the capacities and the VCM availability that this price at a lower bandwidth will remain, it will obviously improve as the stocks in the market are over.

Moderator: The next question is from the line of Manan Madlani from KamayaKya Wealth Management.

Manan Madlani: Sir, my question is again on the gross margin side. Could you just give us to understand, what would you report on any change in the product mix?

Hiranand Savlani: So if you see that compared to last quarter, it is not much change, slightly improvement compared to the last quarter. There is no big bang increase. Very, very small increase. But yes, definitely, it was all-time high, that's why we say. But other way last quarter also, it was close to 40% kind of thing.

Manan Madlani: Okay. And for OPVC, how much gross margin will be there in that business? Any broad range will be fine.

Hiranand Savlani: I think let we launch the product, and then we will be having more clarity and we -- even we have to see how the costing is getting worked out because it's a new product. So we have to understand how the cost parameter is setting out. And based on that, we have to work out the realizations and all.

Also, we have to see how the competitive product realizations are there. Then only we will be deciding the final driving and all things. So I think we have to wait for another couple of quarters. October machines are coming. So hopefully, November market commercial production will be there in the market or maybe quarter end -- October end also. So we will be in a position to give you all this thing in Q4.

Manan Madlani: Okay. And on the adhesives side, how is the silicon pricing is fairing?

Hiranand Savlani: Silicon, now, I think it is comparatively stable. Not big volatility right now.

Moderator: We have the next question from the line of Ritesh Shah from Investec.

Ritesh Shah: Sir, One pointed question. You have given guidance on EBITDA margin on CNBC today for both Plumbing as well as Adhesives. Sir, simple question is, what is the absolute employee cost and other expenses that we plan for FY '25?

Hiranand Savlani: So we have already communicated that all will be in line with the percentage margin whatever was last year.

Ritesh Shah: So does it mean 7.8% of sales and 14.6% of sales that is what we are looking at, irrespective of the changes in resin price and the revenues?

Hiranand Savlani: No, if the resin price goes down, then the percentage can go up also.

Ritesh Shah: Correct. So that is the reason, sir, why I'm asking what is the absolute number? The reason to stress upon this is in Q4 had a lot of focus on cost rationalization. I mean, Q1, again, we see a bump, which we understand that it was perfectly logical and it was expected. So that's why I'm asking like at the start of the year, you emphasize on having full year budgets, so what is the employee cost that we are looking at on a full year basis and likewise ?

Hiranand Savlani: So it is very difficult to give you the absolute number, Ritesh. Normally, every quarter-on-quarter, we monitor the things and based on that, the new recruitment plan getting executed. So budget is always subject to certain numbers. If the numbers are moving in a certain direction, then we may add a few or if it is not like that, we may reduce also. So it is very difficult to give you the absolute figure in the beginning of the year. It keeps changing based on the requirement of the business and based on the growth of the business.

So very, very difficult for us to give you that, okay, we are going to end the year at this number, and that is never going to be the right number also. Even if I communicate it is not going to be the right because it keeps fluctuating. So in a business doesn't work like that way. If suppose my Paint business give me extraordinary -- I'm giving you an example, if my Paint business give me extraordinary number, then I can increase that staff strength also. I can open the new city also.

So in that case, my absolute number will not be matching. Same thing, now Hyderabad plant is getting opened up. Now suppose Hyderabad plant is give me extraordinary number in the beginning stage, I can add new staff over there also. So it is very, very difficult to quantify on an absolute basis. That's why we said that you have to monitor on the basis of percentage rather than on an absolute number basis.

Ritesh Shah: Right, sir. What you have indicated on a guidance -- I'm on the same question. Let me just please finish. you have indicated a guidance 15% to -- 16% to 18% for Plumbing and 14% to 16% for Adhesives. Is that right, sir?

Hiranand Savlani: Yes, it is the right number. It is the -- I have given it for the India operation, not the U.K.

Ritesh Shah: Yes. So let me just finish the question. So when you have given this EBITDA margin guidance, hypothetically, if the resin prices go down by INR15 for the rest of the year, my simple question is, will the management be flexible to cut down on the cost or we will still continue to go ahead with the cost? And then basically, how should one understand the sanctity of the margin profile?

Hiranand Savlani: So naturally, cost will come down because we have to be sensible. If my business is not growing, if business is not giving me the right thing, then I have to reduce my cost. That is what we have done in the past. You see our history, 2007, we have got it listed. Today, we are in '24, last 17 years, we have done it that way only. We are always trying to adjust the thing. When the quarters are good, we are working in a different way. If the quarters are not in our favour, we reduce also. So that is what the business because we cannot keep spending the money even if the business is not growing. That is not the right way to manage the things.

Ritesh Shah: Sure. I just have a related question for Sandeep bhai.

Sandeep Engineer: In short what we would like to communicate very clearly is that if there are challenges coming up in the polymer, we will be accordingly taking care to see that by year-end, we fall in the right number and which if need be, we'll start working and correcting from quarters, whether it is the other expense, whether it is the branding expense or whether any other expenses are there.

Secondly, manpower wise also, we will be working judiciously to see wherever -- but when you have 2 new things which are firing up, the same thing happened in the past when we acquired Resinova also, because you are -- now Resinova is proving itself growing, everything is happening, so there are other initiatives also we have taken in Adhesive business.

And we are opening many new markets and revenue which give us this three quarters again, communicating when we meet. But very, very as Hiranand bhai said, is the challenges come up in growth or in numbers or in polymers or chemicals or anywhere we will be obviously cutting on the cost and see that we are maintaining our guidelines, and we will be very much on conscious about our numbers and figures and EBITDAs.

So we are as a family, and we are, as all of us always cautiously working to see that things move in the right direction.

Hiranand Savlani: Look at the COVID period. how quickly we reduce the cost. So we are understanding that because at the end of the day, we are the trustee of investors' money. So we have to judiciously work. We cannot work what we like because ultimately, we have to respect the other. So based on the requirement of the business, we will act.

Moderator: We have the next question from the line of Akash.

Akash: Thank you for the opportunity Yes, I just wanted to ask what is the gross margin in Adhesives business in India?

Hiranand Savlani: India gross margin is 45%.

Akash: And what was that same quarter last year?

Hiranand Savlani: Roughly about 43%.

Akash: Sure. And sir, what is the current plastic piping capacity and how you see it increasing over next 2 years?

Hiranand Savlani: Capacity. Current capacity, let me check my people and give you the exact number. It is roughly about 3,34,000 metric tons.

Akash: Yes. And say, by FY '25, what will it be?

Hiranand Savlani: I think I have to work out because a lot of expansion activities happening at Hyderabad, then Ghiloth, then Hosur also and then Dholka also, every plant some expansion activity is going on because we are expanding the capacity everywhere. So I think maybe you can call me later, I can give you the tentative number, what will be the year-end capacity.

Akash: Thank you sir.

Moderator: We have the next on the line of Amit Purohit from Elara Capital.

Amit Purohit: Sir, just one on the realization for the Plumbing business. So if I look at, you indicated that second half, you would see improvement that is largely to do with the base effects which will play out because Plumbing cost had come down -- sorry, PVC prices have come down during that period.

So mid- to high single-digit growth, if the prices remain stable as of now should be assumed, right? And second, I wanted to check sequentially because of the infusion mix, also you were saying that Q1 was looking low. So from here on, the -- if prices remain same, then we should see realizations improving for our plumbing business? Is that a right assessment?

Hiranand Savlani: Yes, it's the right understanding. Even if the polymer price remains same, the coming quarter, realization will be much better because it will be more loaded towards the plumbing side of the business than the PVC side of the business or every side of the business. So definitely, even in the past also, if you see that the first quarter is always low and then every sequential quarter, it goes up and fourth quarter is always at the peak.

Amit Purohit: Okay. And so on a full year basis, there is a possibility that we may have 1%, 2%, even if pricing remains stable, the realization could be better just because of Y-o-Y being lower in the second half last year?

Hiranand Savlani: No, it will be more than 1%, 2%.

Amit Purohit: Okay. And the full year margins for the Plumbing business, you are indicating 16 to 18 percentage margin?

Hiranand Savlani: Correct. Correct.

Moderator: That was the last question. I would now like to hand the conference over to Mr. Keshav Lahoti for closing comments.

Hiranand Savlani: Okay. I think Keshav is not there. So we can conclude the call, let Sandeep bhai to say the closing remarks.

Sandeep Engineer: Thank you, everyone, for joining the Q1 call -- earning call and we will again get connected after the Q2 call. And thanks for your support. And anything which you want to ask for unanswered, you're always welcome to get in touch with us. Thank you very much, everyone. Thank you.

Hiranand Savlani: Thank you, everyone. Thank you. If anything is left out, any question, please call me on my mobile number. Thank you so much.

Sandeep Engineer: Thank you. Thank you.

Moderator: On behalf of HDFC Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.