



## “Astral Limited Q1FY23 Earnings Conference Call”

**August 12, 2022**



**MANAGEMENT: MR. SANDEEP ENGINEER – MANAGING DIRECTOR & CHAIRMAN, ASTRAL LIMITED**  
**MR. HIRANAND SAVLANI – CHIEF FINANCIAL OFFICER, ASTRAL LIMITED**  
**MR. KAIRAV ENGINEER – VICE PRESIDENT, BUSINESS DEVELOPMENT, ASTRAL LIMITED**

**MODERATOR: MR. DHRUV JAIN – AMBIT CAPITAL PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Astral Limited Q1FY23 Earnings Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you and over to you Mr. Jain.

**Dhruv Jain:** Thank you. Hello, everyone. Welcome to Astral Limited 1QFY23 Earnings Call.

From the company side today, we have with us Mr. Sandeep Engineer -- M.D. and Chairman; Mr. Hiranand Savlani -- CFO of the Company; and Mr. Kairav Engineer -- VP, Business Development.

Thank you and over to you sir for your opening remarks.

**Sandeep Engineer:** Thank you, everyone for joining the Earning Call of Q1FY23. As you are all aware, the market situation was very volatile and particularly the polymer pricing situation is very challenging and was rapidly dropping, which was expected the way it had gone up and it is on the correction mode. Same was in the case of the demand. Wherever there is a falling price of polymer, the dealer and the distributor want to keep low inventories. If they get a sense of price going up, the inventory and the stock will go up, and the demand accordingly will be going up in the market.

The month-on-month demand scenario is getting very difficult and very unrealistic to predict. But under such situation, we have to inform all of you that Astral team has done a great job. We have a good performance of both the segments, that is Plumbing, Adhesives and Paints. Some pressure was on the margin, and that was mainly because of inventory loss, which Hiranand bhai will explain in detail during his initial remarks.

Now, let me go through the progress of expansion activities and where exactly we are in the new business. Expansion work at east is almost complete and we have already started rolling out the products such as water tank, SWR and PVC pipes.

We are under the process of approvals of ISI for the rest of the products and as soon as we get this approval in the near future, other product lines would also start production and would be rolled out in the market from the east plant.

The work of adhesive state-of-the-art plant in Dahej is in full swing and we are expecting to complete the same in Q3, and we'll be doing trial production in Q4 and in early next fiscal would be complete production.

valve project is progressing well. We have already rolled out a few products in the market and a few are still under trial. Molds are getting modified and we are expecting to complete the same in the Q3.

In faucet and Ceramicware business specially in the faucets, we have just recently acquired a ready-to-use asset at Jamnagar, from where we were getting the supply of our faucet on outsource basis. The production at that facility under Astral brand has already started and now Astral can rightly say that our faucets are and will be manufactured in-house from the plant at Jamnagar, and a very few product lines would be outsourced in the faucet business.

Our first display gallery showroom of faucet and sanitaryware is already started in Ahmedabad, where we have displayed the complete range of products of the newly developed designs of faucet. You are all welcome to visit the same at your convenience.

Company has already started the process of appointing distributors and dealers for faucet and sanitaryware. we are expecting the sales to pick up from Q3 onwards. During Q2, we are expecting some sales as we are still in the process of the complete range and putting the appropriate inventory at our warehouse.

Paints, we have just completed the legal documentation and transferred the funds in the paints business. We are in the process of filing the application for demerger of operating business of Gem Paints with NCLT. We recently completed plant visit of the paint factory by many fund managers and analysts at Bangalore. We hope you must have liked the state-of-the-art newly built up plant which can do FOREX turnover without doing any further CAPEX.

Gem Paints has also delivered good numbers in Q1. We are integrating the business with Astral and in next couple of quarters, we will come up with a plan of opening Gem Paints products in many states of India.

Our UK operations are giving good growth and are unable to fulfill the demand of some of its products. We are working on some CAPEX allocation at the plant and shortly we will work out the same and communicate to you. Post the expansion, we are expecting a very good growth in the business in the UK and US operations.

Overall, except volatility due to the polymer and the chemical prices, we see a good progress in our existing business as well as the new businesses which we are in. We are confident that we will be doing good in the coming times and equally improving upon the other performances.

I now hand over to Mr. Hiranand Savlani to take you through the financial and then we'll open the floor for question-and-answer.

**Hiranand Savlani:**

Thank you, everyone for joining this earning call of Q1. As Sandeep bhai has rightly said that this quarter was full of challenges. In spite of difficult circumstances, we have delivered one of

the best growth during the quarter on a consolidated basis. As we have repeatedly communicated that we always believe in consistency of performance and we have continued the same during this quarter also. The numbers are in front of you and you can see that in both plumbing as well as adhesive, we have delivered 73% and 45% respectively in top line and EBDITA growth was 30% in pipe and 43% in adhesive. I have not counted in this number the paint business. Pipe has delivered a 48% volume growth. The sizable volume growth was mainly because of the low base of last year Q1.

The margins were under pressure in pipe division mainly due to inventory loss. It is difficult to arrive the exact loss figure, but we can approximately say it should be somewhere around Rs.25 crores kind of loss. Also, a few expenses like employee cost and the launch cost of our new products such as faucet and sanitaryware and the big party in Goa for the launch of this product, has been completed in the Q1, so that has also given us some pressure on the EBDITA margin.

At the PAT level, some pressure was mainly because of the FOREX loss of Rs.11.7 crores in the Q1 and also close to about Rs.7 crores of extra amortization of expenditure which is falling under the depreciation, because of the consolidation of paint business. So these were one of the things; Rs.11.7 crores was FOREX loss and Rs.7 crores was depreciation, extra amortization. This FOREX loss was mainly because we are 100% dependent you can say on the CPVC for import and the CPVC volumes were continuously going up. So we were sitting on a reasonably good inventory also. And normally we get some credit terms 90-days from our supplier, so because of that we have to incur the losses into the FOREX side and the rupee was highly volatile during Q1.

Margin in adhesive business were also under pressure due to higher chemical price, but we can say it has improved sizably compared to Q4. The last year Q4 EBDITA margin was 11% in adhesive and Seal IT business and this quarter is 13.6%, so close to about 260 bps improvement into the adhesive business. But still it is lower than our expected range of 15%.

In adhesive, chemical prices have started falling from June onward, but still we are having some inventory which are of the high cost. So this pressure will be still there in Q2 also. Similarly, in pipe also, PVC raw material prices have fallen sharply, not only in Q1, but it has continued in the Q2 also. However, our key raw material, CPVC prices are stable, so that will give us the support in terms of margin and the realization, but definitely some pressure will be there because of the sharp fall in the PVC price.

From this quarter onward, we have now defined two business verticals; one is the plumbing which will cover pipe, paint, faucet, sanitaryware; and second vertical will be paint and adhesive which will cover our Gem Paints, Resinova and our UK subsidiary, Seal IT. Now onward, we will be giving result under these two verticals. We have started consolidation of paint business from this Q1 onward as Astral has already taken a control on the Gem board.

From our press release graphs, you can very well see the performance of our company on a CAGR basis because that's very important for any company to assess the performance. Of the last four years if you can see the CAGR growth, you can come to know how better way the company is growing compared to the even pre-COVID levels also.

Q2 will be challenging, mainly, I said that because of the pressure on the price and secondly, because of continuous falling in the price of raw material. So dealer and distributor communities are sitting with a very lean inventory. So we are waiting that once this prices will settle down, I think the demand should start picking up because these are the very, very good affordable price for the market. Even today also the PVC price has fallen by a couple of rupees.

As on 30th June, company is sitting with Rs.542 crores of cash. Out of this Rs.542 crores, I think Rs.200 crores related to the Gem which is under the arrangement with the company we have parked in the OCD. So that's why it is falling under the cash and bank balance, but otherwise if we have to remove this, you can say the Rs.194 crores, so then Rs.350 crores kind of cash is there with the company.

To sum up this, I think one of items which I already said that is the FOREX loss of Rs.11.7 crores, write-off of amortization of Rs.7 crores, new product launch and the employee cost, increase in the sanitaryware and the faucet to the tune of Rs.5 crores and the inventory losses of Rs.25 crores. So all put together will be close to about Rs.48 crores kind of one-off cost were there in this quarter.

With this, I want to conclude my initial remarks and we are opening up the floor for the Q&A session. Thank you very much.

- Moderator:** We will now begin the question-and-answer session. The question is from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.
- Rajesh Kumar Ravi:** First, some housekeeping numbers. What is the pipes capacity at end of Q1?
- Hiranand Savlani:** So pipe capacity is 2,74,822 MT for last quarter and end of this Q1 close to about 8,000 is further added, so 2,82,338 MT.
- Rajesh Kumar Ravi:** Where will be this capacity by end of this financial year?
- Hiranand Savlani:** It's not clear actually. So, still some capacity will be added in the east also, which will close to about another 10,000 MT will be there.
- Rajesh Kumar Ravi:** For the paint business, could you share the Q4 what sort of revenue they generated, and I understand this was not part of your, but just for a like-to-like understanding? And what is the EBDITA contribution from the paint business?

- Hiranand Savlani:** Paint business last year Q4, I don't have an exact number, but I think it was close to about Rs.50 crores top line and close to about 14.5% kind of EBDITA, but exact number you can call me separately, I can give you, I don't have handy for the last year, but this year I think we already given in the press release.
- Rajesh Kumar Ravi:** What is the margin in Q1 for the paint business?
- Hiranand Savlani:** It is 15%.
- Rajesh Kumar Ravi:** What sort of inventory losses did you incur because your margin fall has been quite heartening, you have maintained your margins very well, despite raising prices taking a sharp dip, so what sort of inventory losses you have seen in Q1 and what is your expectations in Q2?
- Hiranand Savlani:** It's very difficult to exactly work out but we have worked out tentatively which is close to about Rs. 5 Crore kind of level. Q2 will also be there. So now we have to see how it is going to work out because CPVC still is stable but PVC is further dropping, today also a couple of rupees drop is done by the Reliance. So we have to see how it is going to settle down. Everyone was expecting that it is going to be bottom out, but still it is going down. So I think it is very difficult for us to predict what will be the inventory losses for Q2, but definitely it will be there, we cannot say that it will not be there.
- Rajesh Kumar Ravi:** Given that CPVC, PVC potential is now again widening, do you see any risk on the CPVC demand which given the sharp differential?
- Hiranand Savlani:** I don't think anywhere in the past also there is a much change because of the pricing, maybe a little bit here and there will be there, because application is different, CPVC is mainly into the hot water application, will not be a big change, we don't see much here.
- Rajesh Kumar Ravi:** If you could give on PVC, CPVC revenue breakup what would be your revenue mix currently like in Q1 broadly or FY'22 full year?
- Hiranand Savlani:** We don't share this breakup.
- Rajesh Kumar Ravi:** Broadly like 60%, 40% or 40% would be CPVC.
- Hiranand Savlani:** We don't share this.
- Moderator:** The next follow-up question is from the line of Praveen Sahay from Edelweiss Wealth Management. Please go ahead.
- Praveen Sahay:** The first question is related to volume. As you also said, the four year CAGR or even three year CAGR. If I look at the volume have a very good growth as compared of degrowth for the peers.

So is it because you don't have agri contribution or because of something else also, can you elaborate more on that?

**Hiranand Savlani:** I think mainly because the CPVC has improved. So because of that the margin is better. But otherwise agri as such that we are having very low pressure compared to the other players in the market. Our more focus is on the CPVC side of the business and the plumbing side of the PVC business.

**Praveen Sahay:** Volume growth is largely because of a plumbing side. We don't have –

**Hiranand Savlani:** We are a predominantly a plumbing company. So naturally the growth from the plumbing side would be more only.

**Praveen Sahay:** The next question is related to your expenses side. Already, you have said that the next quarter also, we will see some kind of inventory losses. But the other elements like the launch cost, the employee cost which has an increase and factored our numbers, that will continue as well. So we will see the similar kind of a margin in the coming quarters as well?

**Hiranand Savlani:** So you rightly said that and I have already quantified also this number in my initial remark, but some pressure will be there because any new product launch initially they take your investment or you can say cost. So right now sanitaryware and faucet revenue was zero in last quarter and this quarter also will be a very small contribution, but cost will be there. So maybe Q3 onward, we are expecting that the revenue flow will start and maybe it will start picking up in maybe 18 months or maybe 24 months down the line. So till that time, some pressure will be there. But one thing is good that once you reach at a certain level, then it will sharply move. So we have to see how much time it is taking, whether it is taking 15 months, 18 months or two years, we don't know as of today, but we are expecting good response because the way we have seen in our launch party and subsequently after launch of our display gallery, the product range and all this thing, the dealer community, distributor community has seen, they are appreciating. So the expectations are very high. But again I am repeating that till product is not there in the market, so it is too early to comment on that. So let's wait for some more time, but yes, definitely some pressure will come on the margin because of this new products also.

**Sandeep Engineer:** At least we are working out in our budget that we take care of the costs which are coming on this division as overhead, and in one or two quarters at least we at least break even, so there is no other allocation of extra cost on the other divisions, one. Second, we are not in a model of 100% outsourcing as the costly part of the business is the faucets and Astral is going ahead with its own faucet production facility. That makes a great difference in margin, products design, delivery of a good product to the market and as well as improve on many, many aspects of service to the industry.

**Moderator:** Next question is from the line of Venkatesh from Axis Capital. Please go ahead.

- Venkatesh:** Is it possible to share the EBDITA of paints in the current quarter?
- Hiranand Savlani:** I think we already given a number of 15. I think you missed that.
- Venkatesh:** And you also gave the EBDITA number for the fourth quarter of last year, how much was that?
- Hiranand Savlani:** Around 14.5, but we don't have an exact quarterly number because that company was not maintaining the quarterly report, but tentatively I am telling you, it was 14.5 kind of level. So more or less you can just stay in EBDITA.
- Venkatesh:** So last fourth quarter the margin was almost 28% you mean?
- Hiranand Savlani:** No-no, 28% is what?
- Venkatesh:** Because you said last year fourth quarter I think we did Rs.50 crores of revenues. So 14.5% is almost like –
- Hiranand Savlani:** Close to about Rs.7 crores of EBDITA.
- Venkatesh:** I don't know how you want to answer this question. This is a question which most of the investors in your company have been asking us time and time again over the last two to three months, which is basically if you actually look at pre-COVID, the EBDITA per Kg that you are making on paints was close to Rs.28 per Kg. Now over the last two years, this EBDITA per Kg went up to almost Rs.38 in FY'21, it went up to Rs.42 per Kg in FY'22. Now this has come down in the current quarter close to Rs.36 per Kg. But as you said there is like around Rs.25 crores of inventory losses. So if I adjust for that, it is again Rs.43 per Kg, but let's assume hypothetically you have one more quarter of inventory losses, but beyond that PVC prices actually stabilize. Now beyond that, do you think you can maintain Rs.40 plus Kg on the pipe side or is it like we will actually over the medium term let's say two to three years revert back to the Rs.30 per Kg. And if we don't revert, why exactly has this increase happened... so is there any structural reason why this increase has happened?
- Hiranand Savlani:** I think there are multiple reasons behind that. One is the decentralization of the plant, that's why our EBDITA has improved. Secondly, the products mix has changed because we are focusing more on the CPVC side. So that has also contributed. Third thing we are continuously adding the value-added products like valves and other things are also there in the system. So that is also helping. I think multiple reasons are there, because of that EBDITA per Kg has gone up. But it is very, very difficult to say how the situation will be there going forward, because in this typical environment, as Sandeep bhai has also said in his initial remark, that is a very, very highly volatile atmosphere there. In that atmosphere it is very difficult to predict anything for next month, forget about one year down the line or six months down the line. So in that environment I think it is too early for us to say that where ultimately it is going to stabilize, but definitely it will not go back to the earlier days, it will be better only. But how much better will be there, I



think the time will only answer to all these things. But I think there are multiple reasons where we are improving ourselves, and that is why EBDITA per Kg you are saying, it has improved a lot.

**Sandeep Engineer:** All our new launches especially the Seal IT, the CPVC Pro Plus all have started giving good growth and pickups. There are multiple reasons that Mr. Savlani said. At the same time, a lot of other activities which have been done at the market level, are also in a positive direction.

**Venkatesh:** Now, there is this other thing, every quarter you share a sales number which is in terms of the volumes, which in the current quarter is around 36,578 MW. Now earlier this used to be only pipe volumes. But now incrementally like for example in this quarter, does this also include the volumes for water tanks and valves?

**Hiranand Savlani:** Because valve doesn't have a much volume, it is more of value, it doesn't contribute the volume much. And yes, water tank is there. There also volume will be very low, value will be very high. So very negligible will be there. but it is included in everything there.

**Moderator:** Next question is from the line of Sonali from Jefferies India. Please go ahead.

**Sonali:** Thank u for the opportunity My first question is could you help us understand the PVC trend what has it been since 1st of July and how much is the correction broadly?

**Hiranand Savlani:** I think trend is not great, it is continuously falling, and I said in my initial remarks also that today also Reliance had dropped couple of rupees. So it is very, very difficult to predict what will be there. There are still room for a little bit further drop also. So we cannot rule out that possibilities also. But somewhere I think it will try to settle down but still some bottom is there. So very, very difficult whether it will settle down around 85, whether it will settle down at 90 or 80, but it looks very difficult that it will go back to the previous days of 70, 75, but it is very, very difficult to predict because internationally every day some news is coming. So based on that, reaction is there in the system, but at the same time you have to also see that our currency has also depreciated, so that is also there. So very, very difficult sonali to predict the trend. So we have to keep finger crossed that it settles down somewhere, because ultimately if it is not going to settle down, it is going to hurt the demand because dealer and distributor community normally will shy away when there is a continuous fall in price and same thing with the builders also. So somewhere if it settles down, whether it is 80, 85, 75, it's okay, but it should settle down, then only the demand will pick up very far, because now the rates are very attractive. So makes sense to grow volume very fast. But because of this reason only, the demand scenario is still not that great I can say.

**Sonali:** What was the price on 1st of July and what it is right now?

**Hiranand Savlani:** I don't have a handy number, Sonali. You can call me post this con call. I can check my number and we'll come back to you.

- Sonali:** What is the trend in CPVC, has it also been on a correcting trend?
- Hiranand Savlani:** Not much. CPVC is still a stable polymer and supply is the constraint, and secondly, anti-dumping duty is also there. So because of that it may go down, we cannot rule out that possibility also little bit, but very limited room is there, because it has not gone up also. So because of the anti-dumping duty that protection is there. Even if it internationally goes down, India will not be having the effect on that side. So that is how that product is protected.
- Sonali:** My second question is regarding the distribution and the ad spend. Now we have added many new categories. So how do you envisage your distribution, in the sense, do you foresee some overlap with the present distribution or would you have to roll out new dealerships altogether for your emerging categories? And also the ad spend currently versus what you target, factoring that these new products will be scaled up materially over the next three, four years?
- Sandeep Engineer:** Ad spends right now are stable in the same range what we have been spending since the past few years. And we are not really planning to do much ad spends on the newer categories before we set up our distribution channels and before the product moves to the market. So once everything is set and once we have a certain scale of business in the newer categories, we will think about doing some brand building activities for the same. But overall whatever the spend is, it will remain within what we have been spending, so no incremental spend, maybe we might reduce the spend on an existing category and allocate to a newer category, but on a whole, I don't think we'll be spending extra on the newer categories. And as far as the network goes in the faucets and the sanitaryware business, a lot of our channel partners are selling these products. So we will try to utilize our current network and wherever we don't have a current distributor selling this product or if he is not interested we will set up a new network also. So the sanitaryware and faucet business is going to be a combination of the existing network and in certain pockets we will be adding newer dealers and distributors as well. And as far as the paint business goes, we will be following the same concept, wherever our adhesive distributors and dealers are selling paints and they want to sell Astral paints, we will be opening those up, and wherever we don't have reach, we will be appointing newer dealers.
- Sonali:** The CAPEX guidance for FY'23 and '24 if you have? And also sorry, I joined the call a bit late. So, if Hiranand sir could repeat the one-offs for me?
- Hiranand Savlani:** I think CAPEX we are targeting this year should be around 200 crores max. And one-off I already said, but I can repeat again, this FOREX loss was Rs.11.7 crores, this amortization because of the Gem Paints to take the tax advantage is Rs.7crores which is falling under the depreciation head. New product launch and the employee cost for the sanitaryware, faucet was close to about Rs.5 crores and inventory loss was approximately Rs.25 crores which is not exact number, but it is an approximate number, was close to about Rs.25 crores.
- Moderator:** Next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

**Ankur Sharma:** A few questions from my side. One, on the volumes on a three-year CAGR basis when I compare it to the normal Q1'20, it's a 5% CAGR on volumes, which obviously is on the lower side given the way we've grown. and as you said this would primarily be because of the dealer destocking amidst the falling price environment of PVC which probably may continue into Q2 as well. But from a longer term perspective slightly maybe in the second half of this fiscal, how do you see volumes kind of shaping up, do we continue to grow at that 15%-plus kind of volume CAGR once PVC prices kind of stabilize? And if you could also touch upon end market demand especially on plumbing?

**Hiranand Savlani:** I think you rightly pointed out, the volume was low in last three, four years, CAGR if you pick up, but at the same time you have to see the industry, industry was being negative. So when industry was negative and we are growing at a 5% CAGR, hardly any company is in a positive volume growth. So we have to also equally see how the industry is performing. Because of COVID and all these reasons, the industry was in a negative growth. Under that circumstances, I think we delivered one of the good growth I can say. So that was the main reason industry was not performing, but yes, you rightly pointed out that the PVC prices also played a very important role because it went up from Rs.70, 75 to as high as Rs.162, and now it has come down to close to about Rs.90. So if that kind of steep rise will be there, then definitely demand will come under pressure and that was exactly happened in last one, one and a half years. But now I think as I said in the initial remarks also that PVC price will settle down somewhere shortly maybe in another two, three months, maybe Rs.80, 85 or maybe Rs.90, I don't know exactly. But once it will settle down, there are high probability that the volume should start picking up very fast. And that's why I have repeatedly said in my earlier communications also that if you see the construction activity was very slow in India. Because of that the ready unit sale has happened very fast. So ready inventory has substantially come down. So because of that there are high probability that the new construction activity has to pick up. But across all the categories of building material, the cost escalation was so high, forget about pipe, even the other categories. So, it was very, very difficult for a developer also to absorb this kind of cost. So because of that, that activities were slow. So they were selling the ready unit, but they were not focusing too much on the new construction agreement. But now I think across the board every building material prices have started falling down and that too very sharp. So there are high probability that the demand should come back. I don't know it will take one quarter more or two quarter more, very difficult, but if you pick up the next three, four years, we are very bullish on the building material side.

**Ankur Sharma:** One is the focus on the industry, but if you could talk about Astral specifically what are we doing to outgrow the industry? so obviously the expansion in the east is one thing which we are aware about in terms of geographical presence, that will help us improve our share in that region, but if you could also highlight some of the key initiatives we've taken to kind of outgrow the industry on the piping side?

**Sandeep Engineer:** We are doing a lot of things. We are focusing on increasing our network wherever we don't have any presence. So we are finding pockets, wherever we are weak, we are adding distributors, we

are adding dealers, we are also opening more regional warehouses and depots so that we can grow the market in that particular region, we are focusing on brand-related activities wherever needed, and we are constantly adding manufacturing locations and adding newer products in our portfolio to continue this growth rate.

**Moderator:** Next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.

**Sneha Talreja:** Just two questions from my end. Firstly, related to your FOREX losses. Since you said that it's related to CPVC import. Why is it not encountered in the raw material side of it and why the –

**Hiranand Savlani:** Sneha, that is mainly because of the accounting policy, because we can't change the accounting policy of the Company. So because of that we have to account and some other companies have also accounted. I am sure you must have tracking the other companies also. So this is mainly because of the accounting policy. Otherwise, it is good that I can net off against the other incomes also. But because of the accounting policy, auditors are following and we have to strictly follow the accounting policy.

**Sneha Talreja:** Since you mentioned a lot of one-off expenses related to your ad spend, your launch expenses, we were still not able to see your other expenses as a percentage of sales to be lower either on a QoQ or YoY basis. Any reason for that sir?

**Hiranand Savlani:** It is not sizeable because it is only Rs.5 crores, it's not that much higher which is reflected in the percentage terms, and some of them is in this employee cost also. If you see the employee cost also on a quarter-on-quarter basis, then the absolute level numbers are going up.

**Sneha Talreja:** I just wanted to clarify the other.

**Hiranand Savlani:** If you remove that employee side, then the new launch and all was close to about Rs.3.5 crores. So, Rs.3.5 crores will not be somewhere visible in the top line of Rs.1,200 crores.

**Sneha Talreja:** If I just look at your adhesives and paint segment revenue combined and if I exclude adhesives part of it, we have seen a QoQ drop in terms of your revenues. Is it a seasonality in that business which is causing this drop? It's around Rs.8, 9-odd crores now versus around Rs.3.5 crores in the previous quarter.

**Sandeep Engineer:** I am still not getting your question. You are referring the Q4 number?

**Sneha Talreja:** Q1 of the adhesives compared to Q4. I think adhesives only on a standalone basis has gone down on a QoQ basis. Is it the seasonality of that business which is leading to that fall in revenue on a QoQ basis?

**Hiranand Savlani:** Yes, seasonality will definitely will be there, but I don't think it will fall, I have to check this Q4 number, I don't have handy. How much do you say Q4 number?

- Sneha Talreja:** Q4 was around Rs.300-odd crores and this quarter also includes Rs.334 crores which also includes Rs.55 crores of a year again.
- Hiranand Savlani:** I don't think it was Rs.300 crores.
- Sneha Talreja:** I'll check the number again.
- Hiranand Savlani:** You can call me post con call. We will discuss the number. Let me check and come back to you. But definitely some seasonality will also be there in the adhesive side of the business also.
- Moderator:** Next question is from the line of Ritesh Shah from Investec India. Please go ahead.
- Ritesh Shah:** A couple of questions. First for Sandeep bhai. Sandeep bhai, you indicated in the initial remarks of acquiring a facility in Jamnagar. Can you highlight the scope of this, how much would you spend, what percentage of manufacturing would it take care of, what percentage of revenue that can actually come out from this particular facility?
- Sandeep Engineer:** Basically the spend would be around Rs.22 to Rs.23 crores, not big one, but we'll be also spending a few crores to upgrade it as per the Astral safety norms and many of other things which is already on the way, around Rs.4 to 5 crores will first go in the phase, so maybe a complete outlay of Rs.28 to 30 crores. But the range as we envisage and as we at present are getting done from multiple people was outsource model. Almost 60% to 80% between them. At present first phase 60%, later after the upgradation around 80% would be coming from then in-house. And sales to predict after all this and work out, we will let you know the exact numbers how much sales this plant can deliver after one full quarter of our operating the plant, because Astral getting into the plant, lot of systems and lot of safety norms come in, but I'm sure the way we will reshape the plant and upgrade it, it will give a substantial production for our faucet.
- Hiranand Savlani:** Just to add what Sandeep bhai said, normally, if you see this kind of facility, they will give you 5x kind of top line. So we have to see what products will be there because we are new in this category. So we don't have exactly the number, but normally we have seen that it will be close to about 5x kind of turnover.
- Ritesh Shah:** So roughly Rs.150 crores to run that?
- Hiranand Savlani:** Yes, Rs.125-150 crores you can say that.
- Sandeep Engineer:** But to add one more point, if you see the whole Astral model of pipes, adhesives and paints and similarly now faucets and ceramicware, Astral would go for its own production facilities and in-house production which gives great advantage in many ways to deliver a right product, quality product, and at the same time in-house makes a lot of difference on the pricing, costing availability and servicing.

**Ritesh Shah:** My second question is again on bathware. Sir, how should one look at a pan India launch or are we going region-by-region, and what sort of synergies or mapping do we have with our existing network or are we tapping altogether in a different network?

**Sandeep Engineer:** Ritesh bhai, we are planning to launch it in a phase manner, because this is a product that has a lot of moving parts and quality is a key concern for us, because we don't want to launch in a haste and face any problems in the long run. So setting up a state-by-state plan and we have to set up service networks in whichever geographies we are opening and based on the availability of materials, spares as well as the service network, we will open in different geographies in a phased manner. But I think by this 31st March, we would be opening in most of the territories across India. And as far as the existing network goes, yes, there are a lot of Astral dealers and distributors who have shown interest in stocking and selling our product. We are currently launching in Gujarat in the first phase and we have gotten a very good response from our own network. Other than that, we have also added dealers and distributors who are selling other brands in sanitaryware and faucet who have also shown interest in working with Astral. So it's a mix model, it's a combination of Astral parties as well as new parties.

**Ritesh Shah:** One question for Sandeep bhai and two for Hiranand bhai. Sandeep bhai, any update on valves. I think the progress over here is keenly awaited. Any run rate that we are doing? And Hiranand ji, question for you, when you commented on Gem, you used the word 'tax advantage.' So just wanted to understand what kind of benefit will we get out of here? And secondly I think for benefits, why have we factored the FOREX loss below EBDITA line. If you could just briefly explain, that would be useful.

**Sandeep Engineer:** Valves did take some time because the technology and everything is outsourced and COVID did cause a little problem. Today, the range which we are going to put in the market is going up to a good size. Exact, Ritesh we will let you know as the range is launched, but today we have almost completed the launch of these valves up to 50%-plus the range we are going to put, and all the molds are here, but some of the molds need some minor corrections. So we have the mold suppliers from abroad working on it in Ahmedabad and next I think couple of months the whole range which we are going to put for both industrial use, plumbing use and CPVC and PVC would be completed. So the phase-I of the production of valves will be completed, which we have communicated to the market again. Phase-II and III, we are going to add another categories of valves. There are many categories, the ball valve, the butterfly valve, and certain other valves which are also used for the industrial application. These are gate valves and some other form of valves. So this valve project will be giving good margins, good results by the end of this fiscal, at the same time the addition of the range of valves would continue which will give us a good market not only India but lot of export market.

**Hiranand Savlani:** Your first question was on FOREX. I already replied in my earlier similar question that this FOREX loss is mainly because of import. And that is as per the accounting norms, we have to account below the EBDITA. It is not that we choose like that. This is the consistent policy we have followed since last 10-years. You can pick up any quarter number, you will find that this

number will be there. In this quarter, only difference is that this is a little higher number mainly because of the higher fluctuation in the currency. So it is not that that today number is high, that's why we are showing here. It is the policies we have followed from the day one we got listed. Almost now we have completed 14-years. So in last 14, 15 years, you can see every quarter we are publishing this number. Now coming to your second question of tax advantage, when you acquire any company, there is an asset and then there is an amount you pay. Whatever the difference is there, that is divided into the multiple thing and that you can do the amortization and that will help you to take some advantage into the tax. So that is why we have amortized, that is close to about Rs.7 crores in this quarter.

**Ritesh Shah:** Sir, just a continuation, how much more do we have over here which will give us benefit on cash taxes?

**Hiranand Savlani:** So like every quarter Rs.7 crores, very simple, Rs.28 crores yearly.

**Ritesh Shah:** But it's like for this year only?

**Hiranand Savlani:** We have a seven year policy.

**Ritesh Shah:** What would this mean on the effective tax rate at a consol level? I think we have been at around 22% to 23%. Is that a fair number or that number can –

**Hiranand Savlani:** Similar will be there, because ultimately Rs.28 crores on a PBT of last year's Rs.650 crores or Rs.700 crores is not going to be much. So ultimately it will be similar kind of rate; 22%, 23%.

**Moderator:** Next question is from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.

**Rajesh Kumar Ravi:** Now when you start reporting the Gem numbers, they will be amalgamated in the standalone entity, right?

**Hiranand Savlani:** It will be amalgamated in consolidated, not on standalone.

**Rajesh Kumar Ravi:** So, standalone will still continue to report just the plumbing numbers?

**Hiranand Savlani:** Correct.

**Rajesh Kumar Ravi:** This bathware and sanitaryware, how will they be accounted in the standalone?

**Hiranand Savlani:** That will be the part of standalone.

**Rajesh Kumar Ravi:** Second, could you give some segment wise revenue guidance for next two years primarily on the tanks, valves and the bathware

businesses for next two years '23, '24?

**Hiranand Savlani:** I think we have already given this guidance in our annual presentation. We have clearly said that we are targeting to double our top line in the next five years. So that guidance we have already given. I think quarterly or one year guidance will be very, very difficult for us because so many new people are getting into Astral, so many new launches are happening. So many products we are working in adhesive side. Similarly, we are working on the pipe also, few new products are expected. I think it is very, very difficult to predict on a quarterly or yearly number, but I think long-term guidance we already given that we are targeting to double our top line in next five years as a consol basis.

**Rajesh Kumar Ravi:** In terms of the tanks and the valves, what sort of revenue numbers you are looking at?

**Hiranand Savlani:** I think it will be too early to say what will be the number, but I think we have given the long guidance, I think you should stick to that rather than sticking to one quarter or one year number. One more thing I missed in my initial remark, that was the working capital side. I think more or less we have maintained our receivable days and the inventory days in this quarter also. So whatever the days were there in March, I think more or less same receivable days and the inventory days are there.

**Moderator:** Next question is from the line of Salil Desai from Marcellus Investments. Please go ahead.

**Salil Desai:** Hiranand bhai, I want to go back to this inventory loss and to get clarified if I understand it right. You're just quantifying that the cost of raw material versus what you sold, there is some loss there. There is no active provisioning of any loss, right, from an accounting point of view?

**Hiranand Savlani:** No, there is no active provisioning, it is a basically actual loss.

**Salil Desai:** Let's say Rs.100 and –

**Hiranand Savlani:** That's why I communicated in my earlier remarks also that Q2 will have also some pressure, because everything will not be sold out, so some inventory will be still there in the system.

**Salil Desai:** And that inventory number will reflect in the change from March to June which you said is similar number of days?

**Hiranand Savlani:** Number of days will be same on a consol basis. On a case-to-case basis will be low, like in pipe and all, it has reduced reasonably low level, like I think four days in the inventory side and two or three days into the receivable side. But other like paint and all has a little higher working



capital cycle. So there, the days have gone up. So pipe has come down, other has gone up. So overall I said that on a consol basis the receivable and the inventory days are common whatever was there in Q4.

**Salil Desai:** Second question is for Sandeep bhai. When faucet business, you were originally thinking that you will outsource manufacturing, you didn't want to go full all in, I just figure out how things work and then maybe somewhere down the line a couple of years you would take a decision on manufacturing. So now that thinking seems to have changed as manufacturing is better. Can you explain what has led to the change in this way of thinking?

**Sandeep Engineer:** That was 100% moral, but two things happened. As we saw the complexity of the product line and the quality aspects of the product line especially the finish, it's a moving part, ceramicware is not a moving part or something. So looking to that and we got a right opportunity to get something at a right price. Those two things were there. The main thing was the opportunity to get something within Gujarat, one, second, at the right value, and at the same time a good state-of-the-art facility due to whatever reasons the promoter has. But that is the reason why we went ahead and the capital outlay compared to Astral is hardly anything that matters great for the business that can be generated from this amount which we spend. So that was the rationale behind it and still when you get into something new, you keep learning, and when you learn, you understand the nitty-gritties of the business and certain decisions can be taken on these aspects and that that was there why we went ahead with this faucet on our own. It is actually a good thing and everyone should feel that this is a more commitment for us to be in this business, it is a great commitment. When you are on a model of job work, your seriousness of the commitment of many aspects go down. But here we are completely committed to the business as well as the growth of the business.

**Moderator:** Next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

**Sujit Jain:** On paints business when I remove that from the adhesive revenue, then the revenue is Rs.282 crores versus Rs.196 crores which is 44% jump, which if I look at Pidilite numbers, etc., 50% jump looks low and when I knock off the Rs.8 crores OP of paints from the EBIT, so roughly Rs.23, 24 crores of EBIT will come from adhesives which again in terms of margins is something like 8%, 8.5% roughly, which again is kind of on the lower side even QoQ. So if you can explain what exactly happened in the adhesives business

**Hiranand Savlani:** I don't know how you calculated 8%, 8.5%.

**Sujit Jain:** In the base quarter, there is no paint business, that is I'm saying YoY when I compare or even QoQ. From this quarter's number, I knock off the revenue of paints business and I knock off from the adhesives EBIT.

**Hiranand Savlani:** You are calculating the EBIT and there I said that because of this amortization, the gap might there, but otherwise if you see the EBDITA level, I think last year Q1 was 13.8% and that is there

in our press release also, and this quarter it is also close to about 15%, but if you remove this paint it is working out to be 13.6%.

**Sujit Jain:** But on the top line, is it little muted?

**Hiranand Savlani:** That is mainly because UK operation had delivered a very muted growth of 4%, 5% only in the previous quarter, because there was a some constraint, but otherwise if you pick up the Resinova, there was a 18% growth.

**Sujit Jain:** And now faucet becomes a part of plumbing, right?

**Hiranand Savlani:** Yes.

**Sujit Jain:** Eventually, in standalone, you will merge Resinova?

**Hiranand Savlani:** Yes, now we will merge, but segment wise, yes, we will definitely be giving the separate number.

**Sujit Jain:** Segment wise data you give for consol, right?

**Hiranand Savlani:** Yes, consol, you will get the segment.

**Moderator:** I now hand the conference over to the management for closing comments.

**Hiranand Savlani:** So thank you very much for joining this con call and thanks for the Ambit team for hosting this con call. If any questions are left out which we were not able to answer, we were not having the ready number, you are free to call me anytime, my mobile number is always with you. Thank you very much

**Sandeep Engineer:** Thank you all for joining this call. It was great interacting with you guys. It was my first conference call. So looking forward to many more such calls in the future and we will try to work and exceed the expectations of the street in the coming quarters. Thank you everyone and happy Janmashtami and have a great weekend and holidays which are coming for next week, stay safe, and take care and look forward to again interacting with you in Q2 after the hard work which we all have to do.

**Moderator:** On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.