"Astral Limited Q2 FY'26 Results Conference Call"

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MODERATORS: **MR. PRANAV MEHTA - EQUIRUS SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Astral Limited Q2 FY'26 Results Conference Call Hosted by Equirus Securities 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. Pranav Mehta from Equirus Securities. Thank you and over to you, sir.

Pranav Mehta: Thank you, Sarthak. Good evening, everyone. On behalf of Equirus Securities, I welcome you to the 2Q & 1st Half FY'26 Post Results Con-Call with the Management 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 CFO.

I will now hand over the call to Mr. Sandeep sir for his opening remarks. Over to you, sir.

Sandeep Engineer: Thank you for the Earning Call of Q2 FY'26.

As you are all aware, the polymer industry is passing through a volatile time. Prices are highly volatile and fluctuating in a high range, but in spite of that, as usual, Astral is a company which always focuses on growth and at the same time on profitability and which is once again reflected and demonstrated in our quarter results with a 20% volume growth and 15% value growth and 20% growth in our EBITDA margin.

Now, let me take you through the different aspects in the pipe business:

First, demand was overall weak in the industry, but because of decentralization of plants, the demand was very good and growing for us and at the same time, we have opened plants in different geographies, which has helped us to gain market share and also increase our share in the market for the value-added product and even in CPVC. As you are aware, Astral has spent Rs. 1,400 crores in CAPEX in the last four years in all verticals and now it is the time to utilize the same and generate cash flows and growth in all the businesses across the sectors we are in.

As communicated in past, we have increased our product basket in last 3-4 years and since its base is still very low, it has given good performance like water tank, our valve project, fire sprinkler pipes, OPVC, PTMT and our low noise pipe products. These have also given us healthy margins with the growth.

Our Hyderabad plant has started and picking up in volumes and will further pick up in the coming months. Similarly, our Kanpur plant is also gearing up. Actually, we have started the Kanpur plant and it is gearing up and we are expecting it will give good volumes and will be in full scale giving good results for our Q4 of this fiscal year. As in Q3, all inventory levels will also be built up for the Q4. Our CPVC plant designing work is going on and it is almost to the completion and we will be starting the construction and other activities of ordering the machinery in next month and we will be finishing the installation of machinery and construction of the CPVC plant by next year, by September 2026 and we will keep everyone updated on the progress of our CPVC plant in the coming months.

Adhesive business as usual, the business is steadily growing at 15% run rate and we are confident that it will keep growing at the same run rate in coming fiscals. I am sure that you must have seen that in this vertical we are continuously growing market share by entering new geographies, new product introduction and focus on rural markets.

You have also seen that EBITDA margin is also very stable and moving in the range of 15% to 16% continuously. We are confident that this run rate will continue in coming fiscals. The UK business, the UK adhesive business which had lot of concerns in the past few quarters, this business was passing through a tough time in last year. But we took a quick and bold decision to replace the CEO of our UK business and we completed buying of the 5% stake of the company and make it 100% subsidiary. We have put in a new CEO from India who has taken charge of the company and having very good experience of 25 years plus in this segment and we are positive that in coming time we will be back to our normal growth of double digit in revenue EBITDA.

In Q2 also you will find a substantial improvement from what was there in the past few fiscals. We have grown 5% in topline and with 7.33% in EBITDA. 7.33 from a (-2). So, actually the EBITDA has improved substantially and it is continuously improving both in the margins are improving and the growth is improving and we are confident and this quarter we will be growing at the UK business as a substantial growth percentage and the margin percentage.

In the Bathware business, the business is also growing at a slow pace. In the first half we have grown at 20%. However, our acceptance in new projects is increasing fast and our order book is also improving which clearly indicates that in coming time the business will scale up and will reach at a good level. We are positive about the growth of the Bathware business in coming quarters as base is very low and post monsoon the construction activities are picking up and growing very fast.

In our paint business, first time after acquisition of Gem paint we are seeing a 19% growth in H1 and it is continuously growing at a good pace in many of the markets. We have recently opened 9 depots in Gujarat, Rajasthan, and Maharashtra due to which some cost like employee cost and other cost have gone high and we are under the pressure on margins but we are confident that by end of this fiscal and in next year we will see a substantial improvement in the growth topline and the margins. This year we have given a guidance of 20% growth for the full year and we are going to achieve it as per the guidance given by us.

With this I am closing my initial remarks and let Hiranand bhai give you fiscal performance of Q2 and outlook of the rest of the year. Thank you very much.

Hiranand Savlani: Thank you, Pranav for hosting this con call and welcome to all participants for this Q2 earning. As you all know, we are always believing in consistency in number and the profitable growth for the organization. I am very happy to share that in this quarter also we have delivered a very healthy 20% volume growth and 15% value growth and above the guided margin range of 15% to 16% EBITDA on a consolidated basis. Though we all know this quarter was challenging in many fronts, very high monsoon, and extended monsoon also, low government spending, slow construction activity, and volatile polymer prices. In spite of that we have delivered our number as per the guidance of the double digit growth in volume terms in H1. If you have seen H1 basis we have already reached the double digit number and historically also if you see the H2 is much better than the H1. So we are also expecting this year also that the H2 should be better than the H1. We are also slowly and gradually coming back in UK also which was the biggest worry for the investor community and now not only growth has started picking up but the margin has also improved and what Sandeep bhai said we are confident that we will come back to our original double digit kind of EBITDA margin in the next year. So by year end we will cover up whatever the problems are there we will come up and the new CEO will also take charge fully. So next year onward we will be back to the normalcy. Paint has already Sandeep bhai said that first time in the history for Astral we are growing at a close to 20% whatever we have guided. The biggest thing what we are seeing that the amount of CAPEX which we have spent in last 3-3.5 years close to about Rs. 1,400 crore. Now you will see in the coming quarter this will give us the result because last couple of year the polymer prices were low because of that topline was not coming a bit. Now the base effect is there in the system. In 1 or 2 quarter I think volume and value will be more or less same and then onward you will see that it will be a continuously growth and if the ADD which is the most talk of the town today is coming by 12th November whatever the last date government has prescribed then in that case the polymer price will start picking up and in that case the value growth will be even more than the volume growth and that will help us to grow our margins also further from here on.

Also I am sure you must have gone through the working capital side number also, we have improved the net working capital cycle also in this difficult time also and we will keep controlling this working capital cycle in the coming time also. And press release is with you, so I don't want to discuss much on the number side but again I am repeating the vertical wise number. The plumbing has grown up by 15.75%, adhesive India has grown up by 15.83% and adhesive UK has grown by 5.22% and paint has delivered a growth of 17.08% and bathware has delivered growth of 13.84%.

So with this I want to open up the floor for the Q&A session. Over to you, moderator.

Moderator: Thank you very much we will now begin the question-and-answer session. Our first question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Hi, thank you, sir, and congratulations on good set of numbers. Sir couple of questions, though you have highlighted in your opening remarks but just trying to understand better in terms of the numbers so as you mentioned, so first on the plumbing business. The second half is always better but just is it possible to get a some sense that can we can we see even if let's say ADD does not come, it comes obviously is better but if it doesn't come then also can we see a kind of a 17% kind of a growth in the second half? And then normally last time we have said that for next five years also we are looking at double digit growth so that things remains intact?

Hiranand Savlani: I think we have already given a guidance of double digit we have never said that we are going to deliver 17%. So we stand by with the 17%. And if ADD will come that is the bonus to us then that will be even a much higher number. Historically if you see normally the first half is 40% to 45% of the volume and the second half is between 55% to 60% kind of volume. So similarly we are also expecting that the second half should be better, but at this stage we don't want to communicate that we will be growing 20%, 17%, whatever the double digit guidance we have given we standby with that and we are confident that we will be delivering the double digit growth.

Sandeep Engineer: Even if the ADD is not in place the same pace of growth will be continuing for us.

Shravan Shah: Okay and so far sir October have you seen the same momentum what we have seen in the 2Q the same momentum is there on the growth front?

Hiranand Savlani: October was also very good.

Shravan Shah: Okay that's great and just on the realization front. So if you can help us so this quarter we have seen QOQ plumbing realization kind of 8% excluding bathware growth. So is it kind of a more of a product mix change particularly on the CPVC front maybe on the higher side if you can specify the out of overall growth was the CPVC growth, was on the higher side?

Hiranand Savlani: See product mix has improved and that is the region you see there is a substantial improvement in the margin compared to Q1. So definitely the all value-added product contribution has gone up. Otherwise the margin could have been under pressure. So product mix definitely helped us. I think we already communicated that whatever this Rs. 1,400 crore which we have spent in last 3 year for this all new products and all, slowly and gradually it has to perform because you have spent sizable money and now the time has come to generate the cash flow out of that. So definitely the value-added ratio in the coming time has to improve otherwise we have already spent this much of money. It is unfortunate that the polymer price was down for last two years that has given the pressure on us and that time also if you see our margins were still better in this difficult time also, though we were incurring the losses on the inventory side but still our margins were better. So clearly value-added product is supporting us.

Shravan Shah: Got it. And on the adhesive front so both India, so obviously sir has mentioned that the 15% kind of a growth that we even previously guided will continue but on the margin front, so in 1H we have already done 15.6%, so is there a possibility that in the second half and maybe going forward we can even 17% kind of a margin is also possible in India as they say?

Hiranand Savlani: If the growth will be better that economy of scale advantage will be available to us. So definitely it is going to help us in the margin improvement also, but as of today we have given the guidance of 15%-16%. We standby with that and if the growth will be higher definitely margin can improve. Last year also you see the margins were much better.

Sandeep Engineer: Secondly, we have always communicated in the last few calls that we have opened the rural market in a big way and we had to employ more people and create all these new markets new geography. Once these geographies are stable we will also work and bring down the requirement of people which are there to create this market slowly and steadily. So obviously that will give us an additional jump on our improvement in the margin.

Shravan Shah: Got it and lastly on the UK, this is sir you said that by end of this financial year we will be having a double digit margin and that will continue going forward.

Hiranand Savlani: Yes, we said for the next year we are predicting that the double digit margin will be there. But by this end of this fiscal by March we will be substantially improving both on the growth in the overall sales in value terms and even in the EBITDA margin.

Shravan Shah: Got it. Thank you, sir and all the best.

Hiranand Savlani: Thank you very much.

Moderator: Thank you. Our next question is from the line of Sneha Talreja from Nuvama Wealth. Please go ahead.

Sneha Talreja: Hi, good evening team and congratulations on great set of numbers. Just wanted to understand what has actually changed between Q1 and Q2, while I understand the volatility in polymer prices continued, demand as you said that on ground was still subdued, there was no government spending and everything, what's really changed that moved our volume growth from 0% to about 21%? That's one and you know next I'll go for margins.

Kairav Engineer: So basically we have changed as Iran and I said that some of the product mixes definitely changed. So certain products that we manufacture good demand was there in Q2. Also we have become a bit more aggressive in terms of our selling in the market and taking the competition head-on. So we will continue taking the competition head-on and trying to figure out wherever our weaknesses are we have added some network, we have added more dealers, we have increased our distribution count. So on all fronts we have put in our best efforts to give this number.

Hiranand Savlani: Secondly Sneha, I already communicated in my initial remark that whatever this last four new plant has been come up whether it is a Guwahati, whether it is a Cuttack, whether it is a Hyderabad or now in Kanpur. So all this plant definitely is going to help us to grow market share in that respective geography where our presence was low compared to the other geography. So now that geographies are also definitely going to give us a good volume. So that has also helped us to improve our volume.

Sneha Talreja: Sir is it correct to say that geographical diversification also aggression on pricing in certain markets must have increased which must have led to better pricing in those markets and you know better market share from there?

Hiranand Savlani: So definitely it's a combination of all. So aggression in the pricing is also there in respective geographies and certain market value-added contributions are improving, certain market new product contributions are improving. So it is not a one element which I can say that because of this improvement is there. It is a combination of all which is contributing to us.

Sandeep Engineer: And we from last 1.5 years these were the questions and we are always confidently replying that let all these geographies, these plants come up and when these plants were coming up there were a lot of concerns about spending investing but what we did at one go did have a challenge for us for the market but at the same time the fruits that we get from these new plants and the growth the costing rejection because of transport and all these factors together is now going to give us a continuous level of growth reach and market creation so we had been openly discussing on all these fronts also in our past calls.

Sneha Talreja: Understood. So lastly I just wanted to understand about the cost saving measures that you all have opted for and what would have been ad spend last year same quarter versus this year same quarter?

Kairav Engineer: Ad spend as such is not a big part of the total whatever other expenditures are there. Ad spend is a very miniscule part of it. So I think the main thought process is wrong that if the ad spend stop then the other expense will go down because ad spend contributes to maybe less than 5-10 percent of the total other expense. So it's not it's not that only ad spend side we have saved we have saved on a lot of different things and it's better that we can discuss this in person because we do not want to discuss publicly what all cost saving measure we have undertaken.

Sneha Talreja: Sure, Kairav. Thanks to our team.

Sandeep Engineer: Let me reinforce one thing that some of these challenges and red flags were raised 2-3 quarters back by all of you and we had taken certain serious measures and we are continuing, okay, wherever we need that man power is required, we want but where not, we are correcting whether certain expenses all these things, we are doing one by one. And at that time also I communicated certain things will take time of few quarters to reflect and it will still take some more quarters to reflect in the better way reducing this cost and Hiranand bhai in past also communicated once the value and the volume comes up, certain expenses in the percentage term and in the cost terms will also show a substantial improvement.

Sneha Talreja: That is really helpful. Thanks team and all the very best.

Sandeep Engineer: Thank you, Sneha.

Moderator: Thank you. Our next question comes from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: Hi, thank you for the opportunity. So firstly congratulations for a healthy set of numbers. So my first question is as you highlighted your know mix has improved. If we see your EBITDA per kg so which is still flat year on year in spite there was a Rs. 2-Rs. 3 per kg loss in September '24 quarter. So that way margin has reduced if we see in EBITDA per kg terms. Is it due to price aggression? How should we read it? And secondly first time you know sort of normally Astral don't get in price aggression. So looks like Astral is recouping its market share with the help of price aggression. Is it over or should we expect more price aggression and possibly a better volume growth? How should we read it going forward?

Hiranand Savlani: So see price aggression doesn't mean that we are selling at any price. Price aggression is geography-to-geography wherever we feel that it is the correction and secondly what happened earlier the centralized dispatch system was there but now with this new plans and there because of lot of saving is there into that. So considering that saving in mind we are passing on to the market that is why you see that our per kg EBITDA or with a percentage term EBITDA is the highest in the industry. So in spite of so much of challenges and polymer drop was there in this quarter in terms of PVC. In CPVC also price drop was there in this quarter. In spite of that also we are able to maintain that thing whether it is a per kg or whether it is a percentage term EBITDA and in spite of getting aggression also. So we are balancing out, it is not that we are going to sell at any price that is not the mindset of the management. We want to maintain our profitability at the same time wherever we are getting the cost advantages we are passing on to the market and that is the reason you are seeing this number otherwise this number could not have been there if you are throwing the product into the market. So we are balancing and wherever the benefits are there we want to pass on to the market and at the same time we want to grow in the volumes also. So we are going with a balanced approach and that approach will continue in the coming time also because Kanpur and other plants are going to pick up the volume fast in the coming time also. So whatever that benefit will be there we are going to pass on to the market. But that doesn't mean that at any price we want to bring the volume, that is not the mindset of the management.

Keshav Lahoti: Understood. Very well explained. So my question is my understanding is this quarter won't have an inventory loss if we compare EBITDA per kg that is flat year-on-year agreed, but surely the base quarter had a Rs. 2 to Rs. 3 EBITDA per kg inventory loss. So in a way EBITDA per kg have reduced in spite better product mix and in spite better 20% volume growth but surely better than competitors.

Hiranand Savlani: My humble request to every analyst is that that we are always communicating that per EBITDA is not the right way of looking at our Company because every quarter the product mix is changed. Now hypothetically if my certain plant where the demand for PVC is more so in that geography I have to sell more PVC and PVC is not going to give me the same per kg EBITDA what my other products are going to give. So per kg EBITDA will keep fluctuating in the past also and in the future also. The right way is to see the percentage EBITDA. Per kg EBITDA will be definitely going to fluctuate. If you see the historically also Q4 is always giving the highest per kg EBITDA because the PVC ratio is highest in Q4.

Kairav Engineer: Also want to add that we are not only manufacturing PVC and CPVC we are manufacturing many different type of polymer. So we have always time and again said that per kg EBITDA is not the right metric to evaluate.

Keshav Lahoti: Earlier I remember company used to guide EBITDA per kg also Rs. 35 to Rs. 40 on annualized basis, so that holds true or it's more we should see this operating--

Hiranand Savlani: We are always saying in the past also that is not the right metric because it is going to fluctuate on quarter-on-quarter basis because every quarter is a different selling pattern like if you go in Q1 the agri demand will be high in that quarter per kg EBITDA will be low only and if you go into the Q4 the highest plumbing sale will be there and within plumbing also CPVC will be highest, so per kg EBITDA will be much higher in Q4. So it is never going to remain stagnant or in the range so it is always better to look at the percentage of EBITDA.

Keshav Lahoti: Okay got it. I'll come back in queue. Thank you.

Moderator: Thank you. Our next question comes from the line of Praveen Sahay from PL Capital. Please go ahead.

Praveen Sahay: Thank you for opportunity. My first question is, is it possible to share some channel inventory level at the sector level like because of fluctuation in the PVC prices which has come down. How is the situation right now?

Kairav Engineer: Channel inventory levels are still subdued and channel is still not having the confidence of stocking much inventory. So I think after the ADD announcement some positive channel inventory built up might be there but as of right now channel inventory is very low.

Praveen Sahay: Okay. Or in the same like you or some other players are geographically expanding as well their capacities. So is it like channel itself is because of a geographical expansion of large players they had reduced their inventory days?

Kairav Engineer: No, that is not there because we are following the distribution led model. So distributors will always keep certain level of inventory with them and also the fact that distributor have lot of schemes and trade discount tied up with the brand. So to achieve their turnover discounts and their other schemes they will always keep the significant level of stocks with them. So even if we are giving the, getting into a multi-plan multi-geography reach it does not mean that our distributor will not keep this level of inventory.

Praveen Sahay: Thank you for that. Our next question is related to the capacity as in the press release you had mentioned 3,89,000 order capacity you have and also the Kanpur is also going to come. So is this 15,000 included in 3,89,000 or this is over and above?

Hiranand Savlani: No, it is not included because Kanpur started in October and this capacity is of 30th September. So you have to add 15,400 something is there that you have to add in that.

Praveen Sahay: And any further capacity expansions are lined up in the next few months?

Hiranand Savlani: Yes, in the coming time some machine can be added in Hyderabad also because that is also not fully installed and at the same time Kanpur also we are going to add the machine.

Sandeep Engineer: And a few OPVC machines are also coming so they will also be added up at different locations. Some corrugated pipe for the certain product line also we are getting some machine. Our OPR our aluminum PEX machine will be coming by next quarter so that also will be added up with a new product line entirely together. So balancing out act is done continuously in adding some new products and balancing out at different locations. The existing product line where we need more machines but not to the tune of a requirement like a new plant also.

Praveen Sahay: Got it. Thank you sir and all the best.

Hiranand Savlani: Thank you, Praveen.

Moderator: Thank you. Our next question comes from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Thank you for the opportunity and congratulations for a very good set of numbers. Most of my questions are answered. I just want to say that I want to ask you that the way I see that our margin should expand from here because when I look at we are talking about new plants Hyderabad and Kanpur. So is it fair to assume right now those plants may be at the break even or even at the loss level because Kanpur we are just starting, so there is an upfront cost coming in and even in Hyderabad it is fair to assume that utilization level should be fairly low. So that once they scale up I should start seeing the benefit of operating leverage kicking in. And second because of these two plants my logistic cost should also come down which you even said right. So and we are looking at a strong growth momentum, so there is a decent scope of margin improvement. Is this hypothesis correct?

Hiranand Savlani: So Shaleen your understanding is absolutely correct, because right now we are incurring losses on new plant because utilization is hardly anything. So as and when the utilization will improve you see last 2-3 quarters every investor was asking the same question. Why your employee cost is going up? Why your other cost is going up? You are not controlling your cost. So the basic reason was that that once you put up the plant you have to appoint the teams and all this thing. And then you get all this government approval power and all this but the teams are appointed prior to that your all other cost started incurring before you start the plant and once you start the plant you come to the right level of commercial thing you have to give the teething period for the plant also to do the trials and all this but during that period your cost will always be high and that is what we were continuously communicating to everyone that give us time. Let the plant get operational then you will see the benefit out of that. So now that time has come and still you are right that still it is not at the optimum level of utilization hardly any level of utilization. My Hyderabad plant might be working at a 15%-20% utilization. So give us some more time. Secondly, right now because the market conditions are not that great, you all know the reason we already explained to everyone that because of that to fetch the volumes we have to sacrifice certain margin. Otherwise margin can definitely improve but right now because condition of the market is not that great, so we can't hold on our margin at a higher level. So we are passing on margin and benefits to the market whether it is a logistic cost or whether anything other benefit and that is the reason margins are not going to improve in the near term. Once the market will pick up industry level and our plant utilization will improve maybe 40%-50% level then definitely this benefit will be available. But for that we have to wait for few quarters.

Shaleen Kumar: Basically we are saying that margin improvement will happen but we will pass it on to gain market share.

Sandeep Engineer: At present we are passing on, so we will maintain our margin level what we have been maintaining but at some point once the utilization goes up and when it has a substantial utilization we will be even seeing more upward trend in margins volumes and reduction on certain cost structures which have been a great concern from last 3-4 quarters.

Hiranand Savlani : So definitely for a gain of market share we are happy to pass on to the market, we are not juicy about the margin which I have repeatedly said this Company is not only looking for the margin but at the same time continuously we want to grow our market share which we have demonstrated in last 20 years. Every year we are gaining market share and that run rate we want to maintain that thing and wait for some more time. Let us our CPVC plant to come. When that CPVC plant will come that time also some different dynamics will be there but I don't want to discuss at this stage that plant related issues. Let us first the plant get operationalized and then you will see many benefits will be available to the company.

Shaleen Kumar: ADD, there should be a reasonable possibility for it to come, right? Why will it not come? Let us put it this way and obviously something will happen but the probability was very high that it should come in next two week?

Hiranand Savlani: Keep finger crossed because we are not the authority to comment on that but historically we have seen that normally whatever the last date is that prior to that the government normally signed the circular. So hopefully this time also will be same but end of the day it is the government we have no right to comment on the government action. So hopefully there are high probabilities that it should come.

Shaleen Kumar: Again just hypothetically if it comes then what kind of size increase we can expect from the current level, again a hypothetical?

Kairav Engineer: PVC side I think maybe Rs. 5-Rs. 6 may go up but again it's all hypothetical because even if the ADD comes but the demand level does not improve or a global weakness is still there then PVC prices can still remain under pressure. So we cannot say that know that Rs. 6-Rs. 7 rise will be there or Rs. 5 rise will be there. It could be there.

Shaleen Kumar: Hypothetically, sir.

Kairav Engineer: Yes, short term rise can come but long term it all depends on how the demand plays out.

Shaleen Kumar: In a short term because of this ADD, price as well as demand will come because previously channel inventory--

Kairav Engineer: Channel stocking will happen if there is a substantial price rise, channel stocking will happen.

Hiranand Savlani: It is generally dry right now, Shaleen. If the Rs. 5-Rs. 6 price rise will happen and my personal understanding is that and whatever I am talking to the supplier everyone is saying that this much price rise will be immediate wages. It will not take much time. Within 30 days 5-6 rupees price can come up and, in that case, definitely the channel filling will be very fast.

Sandeep Engineer: But one thing let me be very frank that there has been a rise and drop in PVC in the unpredictable manner. So channel stocking will happen but we have to work hard in selling geographies, creating markets, rather than sitting on these things which we know are not certain and unpredictable. So our focus is not on running on this pricing changing or things but we are focusing on growing our market share in the big way.

Hiranand Savlani; So we basically not are seen on the ADD side only what Sandeep bhai said, but we have to focus much deeper to see that how fast we can grow our market.

Shaleen Kumar: Thank you. Congrats again. Best of luck.

Hiranand Savlani: Thank you.

Moderator: Thank you. Our next question comes from Manan Madlani from MJK Investment. Please go ahead.

Manan Madlani: Thank you so much and congratulations team for the good set of numbers. Sir my first question is regarding OPVC. So is it fair to assume, like next quarter OPVC will contribute to our revenues?

Sandeep Engineer: See OPVC is a new product for us. We have started getting orders but contributing in the scale which you think is going to take time. There are lesser projects coming out because OPVC is all used by the government projects and government projects are coming but not at the pace which everyone expects. So we will get OPVC market growth value and volume but it is not a significant thing which everyone thinks but it is obviously going to add to our value and volume and we need to be in this product in a big way which we are doing.

Shaleen Kumar: Correct and in your opening remarks you mentioned regarding bathware segments growth rate. I understand we have an order book in pipeline, so what sort of run rate you are expecting for next year in this segment?

Kairav Engineer: Bathware we will aim to grow at about 20%-25% for the next 5 years.

Shaleen Kumar: Okay and is it at the PAT level profitable yet or?

Hiranand Savlani: Yes, definitely. We are not interested in any business which continuously giving us the losses. At a certain scale of volume it has to give the profit otherwise no point to unnecessary give the management bandwidth and the working capital and all this.

Sandeep Engineer: But I would tell you that quarter-on-quarter it is slowly and steadily the GP is improving.

Shaleen Kumar: Fair enough and sir few quarters ago you mentioned regarding an export order for the fire sprinkler. So just wanted an update what's the demand scenario out there?

Sandeep Engineer: I think no, fire sprinkler we have never told. We have export orders of silent pipes and some other pipes and that is continuing and we are focusing on it.

Shaleen Kumar: Okay and last question on the paint side for FY'27 basis what sort of margin should we expect like, is there any gradual improvement in the margins as well as of now?

Hiranand Savlani: It should be single digit margin in FY'27.

Shaleen Kumar: Okay, fair enough, sir. That's it from my side. Thank you so much and I wish you all the best.

Hiranand Savlani: Thank you very much.

Sandeep Engineer: Thank you very much.

Moderator: Thank you. Our next question comes from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Thank you. Sir first on the CAPEX in 1H. We have roughly done Rs. 282 crore. So for full layer Rs. 300 crores-Rs. 350 crores that previously we guided that remains the same?

Hiranand Savlani: So whatever we have given the guidance it is going to remain same. We are not going to incur more.

Shravan Shah: Okay and secondly in terms of the so if we add the Kanpur capacity also, so in the second half apart from that how much more capacity one can look at by end of FY'26?

Hiranand Savlani: I think let first we utilize this capacity and yes and when the demand will be there based on that we'll keep adding the machine because now the building is ready we have to just add the machine. So whenever demand will start picking up we will keep adding the machine. Right now first we have to utilize this and once this and once 70% 80% utilization level will reach we'll add the machine or unless we can add the machine for the new products.

Shravan Shah: Okay, got it. And sir this quarter particularly, so obviously the entire plumbing volume growth is 20% plus but relatively if I have to look at CPVC growth would be a better than the overall growth?

Hiranand Savlani: We normally don't disclose product level growth but we can only say that the value added product growth will be high that then only this kind of margin is possible otherwise it is not possible.

Shravan Shah: Got it and the broader overall sector level thought that we are having that double digit growth for next maybe a five years, so that stand remains the same.

Hiranand Savlani: Yes, it remains the same.

Shravan Shah: Okay. Got it, sir. Thank you and all the best.

Moderator: Thank you. Our next question comes from the line of Udit Gajiwala from Yes Securities. Please go ahead.

Udit Gajiwala: Hi sir. Congratulations on a great set of numbers. So just one clarification, so in a case where there is no decision from finance ministry, it will be considered as null and void, right? So there is no extension that comes up in these matters, is that right?

Hiranand Savlani: So it depends on the government how government is going to take. Normally in the past this kind of thing rarely happened like that. Government is always supportive to the local domestic industry and globe is also doing the same thing every country now is protecting their local manufacturers. So I don't think that government will take that kind of action but end of the day again I am repeating that we are not the authority. So let us wait for one week only, it's not far away well since the last day today we are talking on the 6th and weekend is also there so hardly 3-4 working days are there within that we will come to know. So we should not be so much hurry to think negative side.

Udit Gajiwala: Understood, sir. And one, if you can throw some light like even despite irrespective of the duty coming in or not you are confident of a double digit growth. One we understand that you are going aggressive and pricing for your market share, so what user industry or which specific regions are you seeing this kind of growth that you can you know deliver?

Hiranand Savlani: I think we can't share all this individual geography wise number or city wide number these all are highly confidential thing and we keep understanding the each and every market and market-to-market we will take that decision and again I am telling you we are not going to be what you understand the aggressive we are very very cautious and whatever is needed or wherever the saving is there we will pass on and get aggressive.

Kairav Engineer: Actually we are always believing in a fair mix, getting the volume growth as well as maintaining the margin. We will not only chase margin or we will not only chase volume, we will do a fair mix of maintaining the volume as well as the margin.

Udit Gajiwala: Fairly understood sir. Thank you sir and all the best.

Hiranand Savlani: Thank you, Udit.

Moderator: Thank you. Our next question comes from the line of Pujan Shah from Molecule Ventures. Please go ahead.

Pujan Shah: My first question would be on the CPVC side. So just wanted to understand on a brief aspect that how much price erosion have been seen on a quarter-on-quarter basis and YOY basis?

Hiranand Savlani: That is very difficult to derive, because every companies pricing are different, Japanese prices are different, Europe prices are different. Local domestic player pricings are different. So very difficult to say that this much price erosion has taken place.

Sandeep Engineer: I think it is very confidential on our part.

Pujan Shah: And so just wanted to understand on the CPVC aspect. So on a longer term, so even the global companies like Lubrizol has been setting up a plant in India and they are also coming with a huge capacity. So why don't we choose an option to opt for the whole capacity being able to cater by Lubrizol or one of the capacities should be catered by Lubrizol and other than going for their own manufacturing of CPVC. Just wanted to understand your aspect on that part.

Sandeep Engineer: Very clear, no company will sell the multinationals to us even if we buy the whole capacity 100% to one company. Secondly Lubrizol will sell at their own margins and things. They won't sell like we do a job and we are confident about two things. One is continued supply. Second is the improvement in the raw material cost and it will help us go backward and maintain our margin. Third is the self-dependency even if we buy and keep buying from the foreign buyers, Lubrizol, and things. We will have to buy some material from abroad because the Indian requirement even after Lubrizol setting up the plant to make money here, GCW here will only be around 20% to 30% of the Indian requirement and

Kairav Engineer: Honestly a lot of people don't understand that with our own plant coming, our inventory levels will go down. So that will free up a huge chunk of the cash of the Company. Typically we maintain a significant level of inventory since of CPVC since it's imported. So once we have our own domestic production our inventory levels raw material inventory levels will reduce significantly. So that will also free up a lot more cash. I think Hiranand bhai can add to that point.

Hiranand Savlani: So I think I have explained to you that practically Astral is not putting any single money into this plant. Whatever we are saving working capital that much we are parking into this new plant and look at the numbers of EBITDA whatever the existing local domestic manufacturer are there.

It is in public domain because both the manufacturers are a listed entity. You look at their number and look at their margin. So now if that kind of saving will be there to us without investing additional cash flow from the company, I think that is going to be a game changer for Astral and that is what we communicated the rationale of this plant in the last call. You go through our last transcript, you will come to know that what were the reasons why we came into this. So I don't want to again repeat each and every rationale in this concall but you can definitely go through our previous transcript. It is going to be a really big help to our organization and the best part is the quality. I have explained this thing in the last call also that quality of CPVC is very very important. Today you see many companies are facing failure. We should not give name of any company, but today you see the quality is the biggest problem going on in the market. Very few companies are there in the market who are giving the right quality product because this pipe is going to be used in the pressure application and in a pressure application you have to give the right quality as per the standard. If you deviate anything below the standard then it is going to be a failure. So we have to see this very seriously. So what Sandeep bhai says that after adding the Lubrizol capacity also India need more material and we want to be a self-sufficient, that's why we have gone into the backward. And the best part is that we have not invested any money. I am not giving you about the figure of what going to be a big benefit from the government of Gujarat that subsidies and all figure if I add this plant investment will be negative. So, we have done a lot of calculation. We have done a lot of R&D for last 3 years and then only we have taken this decision. It is not that in a quick manner we have just for a sake of entering we are entering. We have spent a lot of time on that. We have done a lot of calculation both in terms of technical side as well as in the financial side and then we have taken this decision. But again I don't want to give so much of hope for that at this stage. Let us our plant commission by September and then I think we will discuss about the number and benefits and all these things. So still we have to wait for four quarters and then we will come up and we are the most vocal company. So we will communicate everything to you once this plant will be operational.

Sandeep Engineer: At that time even we will explain you the quantity, rationality behind the quantity.

Pujan Shah: Okay sir. That's a very detailed explanation. So just wanted to understand with the 40,000 MTPA capacity, so what could be the captive consumption of the production what we take right now?

Sandeep Engineer: It would be mostly 100% captive consumption by Astral but how much more we need and all we cannot disclose at this moment, in next year.

Pujan Shah: No, so I am talking in the sense of the total right now demand for the CPVC for Astral.

Kairav Engineer: The plant is 100% going to be consumed by us when it commissions.

Hiranand Savlani: I understood your question. Let me reply to you. Today our consumption is high then what is the plant capacity? That is why we are saying that we are going to consume 100% plant capacity and in future if we feel that whatever calculation we have done, whatever the saving we have worked out, if it is going to be as per what we have planned then we have a space available so we can double the capacity. So we can go up to 80,000 metric tons also. We have a space, we have a land available. So we have to just replicate that facility with a lower CAPEX and that time we can be taking care of 100% utilization of Astral. Today our utilization is more than what is the plant capacity. So we have to buy some resins from the outside also.

Pujan Shah: Okay, got it. Than you so much, sir.

Moderator: Thank you. The next question comes from the line of Nitin Jain from FairValue Capitals. Please go ahead.

Nitin Jain: Thank you for the opportunity and congratulations on a good quarter. So my only question is that the management earlier guided that the volume value gap should reduce going forward in the second half of the year. So how do we plan on achieving that? Do we plan to increase the contribution?

Kairav Engineer: The gap reduction is largely dependent on the ADD coming. So once the ADD comes and the polymer prices go up then automatically this volume and value gap will reduce. But if you see last quarter, the volume and value gap has reduced quite significantly compared to the previous quarters.

Nitin Jain: So the only point I was going to mention is will the contribution of value-added products going up also going to help here?

Hiranand Savlani: Yes, definitely. And you see, we have given in our press release also that the polymer price was down by 10% while value and volume growth for Astral is just 5%. Because our volume is 20 and value is 15. So gap is getting narrow and if the polymer price will getting stable and the base effect will be there, then there are high probability that our value will be higher than the volume.

Nitin Jain: Right. That's helpful. Thank you so much.

Moderator: Thank you. Our next question comes from the line of Tanya Kothary from AUM Capital Market Private Limited. Please go ahead.

Tanya Kothary: Good evening, respected team. Congratulations on an excellent quarter. My question is, I have just a couple of questions. So adhesive and paints now form the larger part of Astral Business Mix. Could you share the current revenue split between this adhesive and paint for H1 and Q2 as well?

Hiranand Savlani: I have already shared but I am again repeating that thing. H1 revenue for adhesive was 566 crore, India operation. UK, 192. And Paint 107. For H1.

Tanya Kothary: Okay, sir. This is for H1?

Hiranand Savlani: Yes. If you want Q1, Q2, Adhesive India was 305. Adhesive UK 97. And Paint 57.

Tanya Kothary: Okay, sir. Have you shared the margins also sir, similarly?

Hiranand Savlani: I think margin, you call me separately, I will give you the individual margin. I think press release it is there. But again, you can call me separately.

Tanya Kothary: Okay, sir. Sir, regarding the bathware, because you were on 40% YOY this quarter and 20% H1, could you share how this vertical is shaping up strategically? Is it being positioned as margin lucrative business or more as a cross-selling complement, sir?

Hiranand Savlani: See, initially, any business may not be a margin lucrative. It is going to be there only after a certain scale. Right now, it is not that scale where you can say that it's a margin lucrative. It will take few years, then only it will be like that. But one thing is good that you can see that in a span of 2.5 years, we have reached at this scale. So, that is I think the beauty of this business, that very few companies have reached at that level in 2.5 year in the bathware business. Other players have also entered into this business. You can compare with that also. So, that is the base thing. Secondly, from the plant building point of view, it is really one of the best products I can say. So far, Astral was known for the, you can say, behind the wall. But now, with this bathware, we are coming to the front. So, that is also helping us in a big way. So, we have to consider the holistic thing and take the decision of the business. But one thing is sure that this business is also going to be a profitable business for Astral. And another thing is that we have not spent too much of money on the CAPEX. We have hardly spent Rs. 25.5 crore additional, we have spent Rs. 30 crore kind of money we have spent on the CAPEX side, which is not that high. Rest, whatever we have invested, that is only working capital because sanitary is anyway outsourcing model. So, I don't think we have spent too much of money on this business.

Kairav Engineer And we are treating this vertical as seriously only. It is not just like a cross-sell vertical for us. So, we have good growth plans for this business also. But unfortunately, the second quarter was heavily impacted by monsoon. So, the demand was sluggish and the construction activity was slow. But from this quarter onwards, we are again foreseeing that we will give a healthy growth number for the bathware segment in Q3 and Q4.

Tanya Kothary: Okay, sir. So, this last one. At a consolidated level, plumbing contributes around 70% and paint and adhesives around 30%. So, how do you see this mix evolving over the medium term? Are you targeting 60-40 balance or still prioritizing plumbing and expansion, sir?

Hiranand Savlani: No. It is not like that. Both vertical will keep growing. But definitely, paint and adhesive vertical has a low base. So, in terms of percentage, little higher will be there compared to the plumbing. But even in this quarter also, you see, both the businesses have grown close to about 15%. So, I don't see any big change will be there. But definitely, base effect will always be there. So, because of that, in percentage terms, slight mix will change, but not going to change substantial, because in polymer business also, we are going to grow fast because we have already committed sizable CAPEX in last three years. So, now the truth will be there in the coming time, maybe coming 1-2-3 years' time. So, that business vertical is also going to grow at a fast scale.

Tanya Kothary: Thank you so much, sir. That's all from my side. Wishing the team continued success ahead. Thank you.

Hiranand Savlani: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sandeep for his closing remarks.

Sandeep Engineer: Thank you everyone for joining the call. And as we assure you, we keep working towards the betterment of the goals and various aspects to grow Astral. And the same quarter-on-quarter, we communicate and keep meeting often. Thank you very much for joining this conference call. Thank you.

Hiranand Savlani: Thank you all the participants for participating and thank you Pranav for hosting this call.

Sandeep Engineer: Thank you, Pranav.

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

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