“Astral Limited

Q2 and FY2027 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Astral Limited Q2 and FY2027 Earnings Conference Call hosted by Equirus Securities Private Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion, and expectation of the company as on date of this call. These statements are not the guarantee of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participants in line will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Pranav Mehta from Equirus Securities Private Limited. Thank you, and over to you, Pranav.

Pranav Mehta: Thanks, Danish. Good evening, everyone, and thank you for joining this call. From the management side, we have with us Mr. Sandeep Engineer, Chairman and Managing Director, Mr. Hiranand Savlani, ED and CFO, Mr. Kairav Engineer, Executive Director, and Mr. Saumya Engineer, CEO, Adhesives and Paint Division. I will now hand over the call to Sandeep sir for his opening remarks. Over to you, sir.

Sandeep Engineer: I welcome all to the Earnings Call of Q2 FY2027 and the First Half Year Results of FY2027 for the Astral business. As you are all aware, the polymer industry is passing through a volatile time. The prices are highly volatile and fluctuating, but due to the implementation of MIP, we feel that now at least the downward side is protected, and the industry will benefit from this. I am very happy to share that this quarter was very good quarter for the industry.

Demand was good across the board. The reason was that Q1 was very negative for the pipe industry, and the trade was sitting on a very low inventory, which supported all-round demand. We at Astral always focused on profitability, volume growth, and market share gains, which we have once again demonstrated in this quarter with a 19.10% volume growth and 10.1% volume growth for H1.

This is not only the highest in the industry, but also comes with a very healthy EBITDA margin of 17.4% in H1 against the company's guidance of double-digit volume growth and 16%-18% margin. This clearly suggests that Astral has been continuously gaining market share for many years, and this journey will continue.

Now, let me take you through all our verticals. Plumbing. Demand was overall good in the industry, and so was the demand for Astral. But because of the decentralizations of the plant, our demand was very good, and because we are gaining market share in new geographies where we have started new plants. As you are aware, Astral has spent sizable amount of capex in last four to five years across all verticals, and now it is the time to utilize the same and generate cash flows from there on.

As communicated in the past, we have increased our product basket in last three to four years, and since its base is still low, we are delivering good performance in products like Watertech, valves, fire sprinkler, OPVC, PTMT, our various low-noise pipe segments. We have also launched a complete range of PPR pipes and fittings, and also electrofusion HDPE drainage system is going to be launched very shortly.

All these new segments have been giving us healthy margins. The major thing, the construction of CPVC plant is almost complete. The machinery installation is going on. It is as per schedule, but some of the things are going early than the schedules, and we are expecting to complete all our trials in the first month of Q4, and we will be commercially ready with the CPVC production by the last month of Q4.

Our state-of-the-art machines for the new value-added products, Pex, aluminum Pex, has been installed, stabilized, and now it is starting its commercial production. In Q3, it will be in this quarter, Pex, aluminum Pex will be commercially sold from Astral, from its own plant and from its own product basket.

Apart from there, I think going forward also, I would like to clearly give a guidance that the month -- for the last month -- and this month has been a robust demand for the piping segment. And we expect our growth at that robust pace to continue and deliver a healthy margin in this quarter.

Bathware. The bathware business is also picking up, and more and more new projects and developers are being added to Astral brand. During this quarter, we have given a healthy growth of 26.8%.

Adhesive business. This quarter was once again excellent for adhesive business in India and overseas. We have delivered a robust growth of 25.3% and 30.10% respectively. We are getting a good response in the rural and online business from all our product line and all the segments.

At the same time, overseas business is also picking up very well. I am sure you must have seen that in this vertical, we are continuously growing our market share by entering new geographies, introducing new products, and focusing on rural and overseas market.

During the quarter, margins were under pressure due to high-cost inventories, and pass-through is taking place with a lag effect. There were certain schemes and things which were devised and been announced, which have been corrected, and the pass-throughs have taken place.

Once again, the pass-through is complete, or the raw material prices will start declining, looking to the crude prices and improving. We assure you, and we are very much conscious about bringing this EBITDA margin back to the normal level in this quarter, and by the end of this fiscal year, again, to the margins of 13%, 14%, or up to 15%. We are all consciously working there.

The last month shown a positive growth, a very good growth, as well as a very good improvement in the margins. The same is continuing for this month too. The adhesive business in UK, this business has started delivering growth and positive EBITDA, which we had promised

that there were certain corrections to be done, which have done, and so we are now getting a positive EBITDA margin compared to last year.

This quarter, we have achieved a robust growth of 30.1%, with an EBITDA margin of 6.30%. We feel that this business is now slowly coming back to track, and by the year-end, we also will deliver the guided margins for the UK business. You can see from the numbers of UK business that H1, we have delivered a robust growth of 28.1% and with the EBITDA of 5.6%.

The Paint this quarter once again saw a robust growth of 39.9%, following 48.7% for the first quarter. Yes, there are concern about paint business, and we assure you that by this year-end, the margins in the EBITDA will show a very positive growth. The paint business has delivered robust growth from the six operatives.

All the states have been giving excellent growth, and we are not opening now any more geographies in Paint till we stabilize these states, grow in these states, and our EBITDA at least touches around 9%-10%. The new launches are also getting a good response. We are working on these geographies for the new launches and increasing our product range.

Due to geopolitical situation, crude prices, and higher side, most of the chemicals derivatives of crude, hence the pressure continued on the margins. But even we have taken improvements in the paint business in this quarter at various places, right from our scheme improvements to the margin improvements.

We are sure that it is going to grow at a fast pace and improve on the margins very fast. We are in line with the industry; we are passing through the prices also. But everything in these two businesses, adhesive and paints especially, is happening at a lag effect.

DSS, the newly acquired specialty company. This quarter, DSS has generated a good revenue of INR53 million and an EBITDA of INR8 million. Though its base is very low, we are undertaking an expansion plan for which the plans have been laid down.

The expansion plan will happen into next one or two years, and which will be ready by the year-end because we are getting a very good running plant next to us at a very effective cost and level where we can now scale up the production, add new products, and we can increase the revenue very fast.

After that, we will see a jump in revenue margins because the introduction of new products and economies of the scale, because these products will replace lot of the products which we import and use in our adhesive business, paint business, as well as we will able to sell these products to Indian market, export, and also keep on developing new chemistries which are almost ready, and we are about to make them one by one in this new business.

With this, I am closing my initial remarks, and I'll let Hiranand give you the financial performance of Q2 and the outlook of the rest of the year, and we will be all available to answer your questions. Thank you very much.

Hiranand Savlani: Good evening, everyone. Sorry for the hosting delay code because the Chorus was full of the schedule, so we thought only the 8:00 P.M. call. We are extremely sorry to trouble all of you in a late hour. Once again, welcome to the Q2 Earnings. The results are in front of you and press release are with you, so I want to only highlight the key numbers vertical-wise for the Q2. in this Q2, plumbing business had delivered INR1,398 crores against the last year similar quarter, INR1,118 crores. So 25% kind of growth is there.

Adhesive business had delivered INR382 crores versus last year INR305 crores, so 25.3% growth. Adhesive UK this year has delivered INR126 crores against the last year INR97 crores, so 30% kind of growth. Paint business delivered INR82 crores this quarter versus last year INR57 crores, so a growth of 43.9%.

On a consolidated basis, this quarter INR1,988 crores versus last year INR1,577 crores, so an overall growth of 26%. On a H1 basis, if you see, the plumbing business had delivered INR2,448 crores versus last year INR2,072 crores, so 18% growth. Adhesive India business INR708 crores versus INR566 crores last year, so 25% growth. Adhesive UK has delivered INR247 crores versus last year INR192 crores, so 28% growth.

Paint business, first half INR162 crores versus last year INR107 crores, so 51% growth. And consolidated growth for the company is INR3,566 crores versus last year INR2,938 crores. So overall, on a consolidated basis, we have delivered 21.4% growth.

Now, coming to the margin side. In Q2, the plumbing business had delivered INR227 crores of EBITDA, so 16.3%. Adhesive business India operation is INR42 crores, so 11% kind of margin. Adhesive UK, INR7.9 crores, so 6.3% EBITDA margin.

Paint business, negative INR4 crores, so roughly about negative 5%. Consolidated, INR272 crores, so 13.7% EBITDA margin. On a half yearly basis, plumbing business, INR426 crores, 17.4%. Adhesive India, INR81 crores, so 11.5%. Adhesive UK, INR13.8 crores, 5.6 crores. And paint business, INR4 crores negative, roughly about 2.5%. And consolidated, INR516 crores, 14.5%.

As you all know that we are always believing in the consistency of number and the profitable growth for the organization. I'm very happy to share that in this quarter as well, we have again delivered a very healthy volume growth as well as the value growth also. In both the vertical, pipe and bathroom vertical and adhesive and the paint vertical also.

The overall consolidated growth was roughly about 26% and the margin was 13.7%. We are happy to share that we have given guidance of double-digit volume growth in the plumbing vertical.

If you see the number, in H1, we have delivered 10.1%. So we are already delivered in a difficult quarter, double-digit growth. So, we are quite confident that in the second half will be even much more than what we have delivered in the H1. Similarly, if you see the margin side also, we have given a guidance of 16%-18% EBITDA. Again, that we are on the higher side of 17.4% EBITDA in the H1. So, we are very well within our guided zone.

And you must be knowing from the so many years number, even if you see the last year number also, that our first half plumbing business normally deliver 40% of EBITDA. So last year, if you see out of INR916 crores EBITDA, which we have delivered in the full year basis, the first half was INR369 crores and the second half was INR547 crores.

It is 40/60 ratio was there. We are expecting the similar kind of growth, so we will be easily doing close to about INR1,050 crores kind of EBITDA in the full year basis. Similarly, in adhesive also, some pressure was there on the margin front, which I think Sandeep bhai has already explained that there is a pressure on the cost, which we are slowly and gradually passing on to the industry, but it is passing on with some lag effect.

That is why there is a pressure on the margin. But still, we are confident that by year-end, most of the pass-through will take place. And the way yesterday's outcome has come for the elections and all, and the crude have started falling, which has given us a positive sign.

If the chemicals start falling, then it is going to give us a big advantage in Q3 as well as the Q4. In pipe, one of the good things has happened for the industry is that the implementation of MIP has taken place. And now, even the countervailing duty is also there on the card, and provisional things are already issued by the government.

This is a very, very good things for the industry that we were struggling for last two, three years, the downward trend of the polymer. Now, at least with this, close to about INR85, INR90 kind of minimum base price will be there.

So, downside is very much protected. That is going to give us a big support, and at the same time, dealer and distributor will also be happy to hold the inventory, whenever there is a price coming to that kind of zone. So, they will not wait for the further fall also.

Secondly, I want to highlight that since realizations are improving due to higher polymer price, and we are confident that the margin in the second half will be better, as most of the Q2 cost inflation has already been passed through in Q3 beginning.

So, October, I think most of the price rise we have taken in the PVC also, and in the CPVC also, we have taken the price rise. So, most of the price rise has passed through in the industry. So Q3 will also be a good margin because most of the things is already passed through.

As communicated, Sandeep bhai, we are slowly getting back to the growth path in our UK business, and as guided in the last con call. The numbers are in front of you. We are continuously growing fast. The top line is growing at a 30% kind of run rate, and the EBITDA is also improving. This quarter also, we have delivered close to about 6.3% EBITDA.

Our new product contribution will start from this quarter itself, like aluminum PEX, HDPE, PPR, PE, electrofusion fitting. All this contribution will start coming, so that will help us to improve our top line as well as the bottom line.

In nutshell, I can say overall, the industry environment is very positive. Across all the vertical, we are gaining the market share. We are highly confident that in the second half also, we will be delivering much better numbers than what we have delivered in the first half.

With this, I want to conclude my initial remarks and opening the floor for the Q&A.

Moderator: Thank you so much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question comes from the line of Shravan Shah with Dolat Capital. Please go ahead.

Shravan Shah: Hi, sir. Couple of questions. You have already highlighted in terms of the, we are looking at a better growth in the second half, but just wanted more clarity there. So particularly first on the plumbing side. So, you highlighted that the October last time the Diwali was there and in October, so low base. Just wanted to see broadly in terms of where the growth would be.

It would be a kind of a high teens' kind of a number that we have seen in the October. Because in the Q4 FY2026, because of the price hike and the inventory shifted from company to dealers, we were having a significant growth, 24 odd percent.

So, in that base also, are we confident that we should be doing that we have already said 10%, but what's the possibility to reach to a 12%, 13%? Is there a possibility or 10% for the full year that's where we will be looking at?

Kairav Engineer: Good evening, Shravan. I will answer your question. First question is regarding October. I think October we saw unprecedented demand and the sale has been very good. I think it is the best October that we have had in the history of Astral in terms of all the product. Especially plumbing side, I cannot say this volume number on the call because you will take it at a benchmark, but it is unprecedented type growth that we have seen in the month of October.

We are very hopeful that we will continue our double-digit momentum into Q3 and also into Q4. Now, whether we will deliver 10% or 11% or 12%, that still is to be seen. But ideally, we are targeting anywhere full year basis, anywhere between, you can say 290,000-to-300,000-ton type of total volume number.

Sandeep Engineer: Shravan, to add, I think we are targeting not that 10, 11, 12, but we will be working for more, but we don't want to specify the number. But looking to the product lines, the new plants, the geography addition, the distribution addition, because we are adding multiple distributors also, we feel that there is a robust growth going to come in these two quarters business.

Shravan Shah: Got it. Second, in terms of the, we have mentioned that the price hike, which was the cost increase was there in September, which we pass on in the October, in the plumbing particularly and the CPVC. If you can highlight it broadly how much in terms of the percentage.

Kairav Engineer: Shravan, we have taken 5% hike in CPVC in the month of October. And PVC, we have taken all the price rises till date. Whatever price rises have happened, we have covered all the price rises. And looking at the, you may think that the margin profile in the Q2 is per kg is lower than Q1, but you have to understand that product mix is more favorable for us in Q3 and Q4. So, I

think things are moving in the right track. We have nothing to worry about. Q3 will again be a very robust quarter.

Hiranand Savlani: Secondly, I can add, Shravan, that we always request every investor that look our number from a full year basis rather than on a particular quarter basis. Even if you see the first half basis also, I think margins are well in the higher zone. We have guided 16%-18%, and we are sitting on 17.4%.

I do not think that there is a pressure on the margin also, because sometime pass-through take place with little lag here and there. Because of that particular month or particular quarter, number plus minus can happen. But on a yearly basis, we are quite confident that whatever we have given the guidance, we are going to deliver on that.

Shravan Shah: Great. Sir, given that the adhesive part, India particularly 25% growth in the 1H. Last time we were saying that for full year 15%-20%. In a similar way UK also for 28%, and we were looking at more than 10%. Is there any upgrade in the guidance for both India and UK adhesive?

Hiranand Savlani: Definitely there will be upgrade in both the businesses because the cost pressure is there, so because of their realizations are also improving. But at the same time, good part is that the volume is also equally growing fast.

Hiranand Savlani: Definitely there will be an upper side, much upper side, I can say, rather than what 15% we have given. We are not giving you exact number that we will be delivering 20%, 25%, how much, but definitely whatever we will deliver, we are going to try to maintain that kind of momentum. Again, the guidance definitely number will be much higher.

Sandeep Engineer: But I think if Saumya is there on the line, he has joined from Singapore. He is there on a vacation, but he has joined from Singapore. I think on the broader base, let him also comment on these two business growth prospects of the, this coming two quarters. Saumya, you can add to it if you want.

Saumya Engineer: Yes, no, I think overall Q3 and Q4 will be, as Hiranbhai said, we will be seeing good top-line growth for sure. And guidance as of now, what Hiranbhai said, I think we will try to maintain the Q1, Q2 run rate in terms of the top-line growth.

So, we are penetrating the business well. We are gaining the market share in adhesive business for sure. Bottom line is, we said when we started the call to all of you that it is an improvement area for us.

So, we will be working very heavily on that in terms of any corrections we can take in terms of our costs or putting price increases if required in the market in certain products where we hold significant strong position in certain retail markets. And also, let's see what correction comes.

I think Q3, we are seeing some raw material getting softer in Q3, Q4, hopefully for the chemicals. So, that will also have an added value overall in terms of our margins for Q3, Q4. So overall, it does not look like too much of a stressful situation, and we will address it very positively in Q3 and Q4.

And as and when DSS also starts gearing up and adding value to the overall adhesive business, I think that is going to be a very good backward integration for the adhesive business.

Shravan Shah: So both India and UK in terms of margin, definitely whatever we have done, 11.5% and 5.6% in the 1H, should be improving in the second half.

Saumya Engineer: Yes, it will gradually improve moving into Q3, Q4, as per what we mentioned when we started the call.

Shravan Shah: Last on the capex front, sir, we have already done INR380 odd crores in the 1H, but we were looking at INR300 crores, INR350 odd crores for this year. Even last three, four times we said that now the capex will be on the lower side and we will be sweating the assets. But since the capex is still happening, how we look at this year, next year in terms of the capex?

Hiranand Savlani: I think capex in the first half we have done INR260 crores. The balance portion is, I think, goodwill related thing is there because of acquisitions and all. I think what we have given the guidance, and secondly, with this capex also, INR40 crores related to the Nexelon, which is our CPVC plant also. We have not considered that at INR300 crores, INR350 crores. I think all put together, I think by year end, we should be completing around INR400 crores kind of capex.

Sandeep Engineer: But at the other end, we have already the warehouse and the big office in Bengaluru, which we got from the acquisition of Gem Paints, which was put on sold, has been now sold, and we will be getting around INR50 crores, around INR50+, INR51, INR52 crores from the sale of that asset back as in the capital.

Shravan Shah: Okay. Thank you, sir, and all the best and happy Diwali.

Sandeep Engineer: Thank you. Same to you.

Moderator: Thank you. Our next question comes from the line of Ritesh Shah with Investec. Please go ahead.

Ritesh Shah: Yes, hi, sir. On the opportunity, couple of questions. First, if you could please touch upon increase in inventory days. Likewise, there is a decline in payable days. And specifically with respect to inventory, if you could also possibly indicate what is the average holding cost of PVC and CPVC, that will help. The reason to ask this is after the decline in crude, we do understand the MIP is there, but if, say, hypothetically MIP is at INR85-INR86, could there be some probability of an inventory dent in Q3 if the PVC price is correct? I am just trying to understand that. That is the first question.

Hiranand Savlani: I think, Ritesh, inventory days have gone up mainly because the inflationary environment. Because of that, you are continuously, you have to buy the higher cost material. Because of that, and it is the average of material. That is why sometime days, and particularly secondly, days are reflected on a particular day on September 30th. We normally consider the average days of holding, which is normally in the range of 55-60 days.

But published numbers are always on a particular day of September 30th. But otherwise, on an average, we hold 55-60 days. Secondly, PVC price has gone up after this number, because we

have published this number on September 30th, and after that, the PVC price has gone up. So, it has not gone down. So, there is no reason that we believe that there will be a dent on the inventory. So far, there is no reduction on the PVC price.

Even if in future, suppose the PVC price has to come down. By that time, we will be significantly reducing our inventory. I think Kairav has already clearly communicated that history-high sale we have done in the month of October. So sizable inventory we already cut. So my number of days will not be what is published in the September date. Regarding your payable day, I think last year we had some foreign exchange-related losses.

This time, management has taken a call that dollar-related liabilities, looking to the war kind of situation, we have to reduce and try to see that we pay off early and take that advantage of discount or whatever available from the supplier. That is the reason you can see in the first half, there is no foreign currency-related loss in spite of having so much of fluctuation in the currency. Because of that, payable days have come down. But once I think things will stabilize, payable days can again go up also.

Ritesh Shah: Sure, this is helpful. My second question is, if you look at the history of the company, Q2 has always been stronger than Q1, and partly it is because of operating leverage, partly it is also on back of the mix. To what we understand, the mix gets better as we move from Q1 to Q4. I think Kairav did allude to the point that product mix will be actually better in Q3, which we appreciate.

Just wanted to understand what exactly happened from Q1 to Q2, given we also have the benefits of operating leverage. Is it PVC versus CPVC? Is it fittings versus pipes or agri pipes versus IP? What exactly changed?

Kairav Engineer: Ritesh, we had committed to all of you that we will deliver double-digit growth, right? To deliver that double-digit growth, sometimes you have to be aggressive in your pricing also, and sometimes product mix is also changed. If you look at the entire piping industry, if you consider H1, we have delivered the best margin and we have delivered the best volume growth. That too in terms, in a scenario where there is a war going on, where the polymers and additives and all prices are volatile, where there are supply issues. I do not think that one needs to really look into it on a quarterly basis.

On a full yearly basis, again, as Hiranand bhai said, I am reiterating, we will deliver close to about INR1,050 type EBITDA in this business because it is the Q3 and Q4 that are going to be favourable in the product mix.

Hiranand Savlani: Secondly, one more word, Ritesh. Ritesh, I just want to clarify what Kairav say, that this INR1,050 crores we are projecting EBITDA, that is only for the plumbing business, not the chemical or the adhesive or the paint. That will be INR200 plus crores because in the first half itself, if you see, chemical business also we have delivered INR90 crores kind of EBITDA. Even if the same level of things will be maintained, then also we will be INR180, INR200.

Definitely now price pass-through is taking place and some benefit of the chemical price reduction will take place. Then definitely INR200 plus will be there. On a full year basis,

INR1,250 kind of EBITDA we are projecting for the full year. You see the last year number also. Last year also the similar trend was there.

Ritesh Shah: Sir, I'm with you. I'm completely with you on full year numbers. I'm just trying to understand what exactly changed on a sequential basis on a product mix.

Kairav Engineer: Basically, nothing changed. The industry was in a severe degrowth environment in Q1, and everyone was covering up the volume in Q2, and everyone was passing the price rise at a lag effect. It is a quarter that is not particularly favourable for the CPVC product. It is going to be a PVC-heavy quarter, and the price rises were being passed at a lag effect by everyone because everyone was trying to gain the market share and cut their volume. Similarly, we were also doing. There is nothing wrong in what has happened. It is just that that was a business call that we had to take.

Hiranand Savlani: Secondly, Ritesh, one thing was also there that in September, what scheme we run to cut the volume, that advantage taken by the distributor was more of the piping side than the fitting side. What happened that the ratio of pipe was much higher than the normal ratio which we used to work. Because of that, the fitting sale come down in September, particularly on the CPVC, which reflected in October.

That's why October is the extraordinary number, because the fitting sale took place in October. Last month, the scheme was designed in such a manner that most of the distributor purchased the pipe. That also, product mix also, to some extent affected our margin.

But that is going to happen in the industry because one month some scheme will be there, some month some scheme will be there. I think that loss, whatever was there, we have already covered up in October.

Ritesh Shah: Perfect. This helped a lot. Thank you so much. I wish you all the very best and-

Kairav Engineer: Thank you. Thank you, Ritesh.

Ritesh Shah: Thank you.

Moderator: Thank you. Next question come from the line of Keshav Lahoti with HDFC Securities. Please go ahead.

Keshav Lahoti: Hi, thank you for the opportunity. Firstly, congratulations on industry-leading growth in H1. My question is, we are seeing some slowdown in volume in Q2, whether Astral remains confident to deliver industry-leading growth in FY2027?

Hiranand Savlani: I think so far, you see last three, four years, we are continuously delivering the excellent number. Okay? There is no reason to believe that we will not be able to deliver. We are quite confident, and now with the way capex we have done, and we opened up a multiple plant, and now lot of new product launches is going to happen. These all are suggesting that we will definitely going to deliver the industry-leading growth.

Keshav Lahoti: Understood. Got it. Sir, whether there has been any inventory gain in this quarter?

Hiranand Savlani: No, because actually their pass-through was not taken place, otherwise definitely could have been there.

Keshav Lahoti: Understood. Got it. What is the adhesive and paint, you know, guided margin for this year, India as well as UK?

Hiranand Savlani: I think India we guided 14%-15% normal EBITDA we are delivering, but in H1 it is 11.5% kind of we have delivered. So we are short by 2.5% kind of guidance. We are of the view that because this industry pass-through taking place with the lag, and particularly if you see that whatever we are passing on to the market, then the further price rise is happening. Like nobody expected that the crude will touch 115, 120 kind of level.

So, because of that, the fluctuation is wide. So, if somewhere it will settle down, I do not know what level it will settle down, maybe 100, 90 or 85, I do not know. But it is somewhere it will settle down, and then I think the pass-through will take place fully, and then the margin will be coming back to the normalcy of 14%-15% kind of level.

UK, we already said that we are slowly and gradually going to deliver by year-end. Our target is to reach somewhere around 9%-10% kind of level. I think we are going into that direction. Like in Q2, we were 6.3% kind of EBITDA. So hopefully, we are positive on that side also. There also, the same problem is going on. In spite of that, we are in the positive side of EBITDA. Pass-through is taking place with some lag, but hopefully there also we will be coming out from that problem. So year-end margin will be coming back to the normalcy.

Sandeep Engineer: We have started making corrections in both the businesses, and we are very conscious, and we are going through everything where we can get corrections and margins back. So we are confident the improvement is continuously going to happen this quarter and next quarter, and we have to stabilize, and we will be going back to our guided numbers very well by the year-end.

Keshav Lahoti: Got it. One last question from my side. I understand, you know, the things are quite volatile. When should we expect, you know, profitability to kick in in paint business, and possibly you guided 9%-10% margin for paint? When is that expected?

Sandeep Engineer: Paint, we have guided 9%-10%, and we are sure that by this year-end, we will be positive EBITDA around 3%-4%. By next year, I think we should be anywhere between 8%, 9%, and 10%. Volume-wise, we have been growing at a very fast pace, so a lot of these expenses which we are doing on manpower, warehousing, deliveries, in last year compared to last year, these have started coming down heavily, and we will see more improvement in these two quarters.

Especially even this last month and this month, there is a very, very robust growth we have got on paints. We are targeting to keep the run rate of growth at 40 plus, 40%, 45%, 50%, which will be a very good run rate on growth, getting market segment, getting more customers, and getting more market share. At the same time, the improvement on the margin will be done very severely in this and coming quarter.

Keshav Lahoti: Got it. Just one last question. What are the levers of margin improvements, like minus 5%-10%? What things you are factoring in? Is it more like cost or more like revenue-led?

Hiranand Savlani: Two things are there. One thing, if you see the Q1, we were already at the breakeven.

Keshav Lahoti: Yes.

Hiranand Savlani: Again, the cost inflation came, and because of that, the situation changed that thing. If the volatility will end, then definitely what Sandeep bhai said that even in the beginning of the year also, we have communicated that we will be a lower single-digit EBITDA for the full year basis. That is what we are communicating now also. But what happened that the volatility is so sharp in the market because of this war situation.

If somewhere it will be stabilized, then definitely we are confident because now growth rate is very high, 40% plus growth we are working. Because of that, overhead absorption will take place very fast. Next year, again, if we target around 25% kind of growth, then I am sure the cost will not going to go up so high. But economy of scale will give you the extra margin.

Then by the time, all this pass-through will take place. Bringing back to that level, I don't think is going to be a big challenge. But again, it depends on the market situation. If again this kind of volatility will continue, then plus-minus can happen.

Sandeep Engineer: Secondly, I would like to tell everyone very clearly that we have come out of all the legacy issues which we got from the Gem Paints. Our collection cycle is excellent. We are direct to dealer. We are getting no bad debts now. Collection cycle is very strict. All our collections, which in the past legacy were four months, five months, as is varies, have been completely corrected, and we are getting our payment cycle has come down to 60 days, and which is a very good payment cycle for the paint business.

All these legacy issues do take our time to make corrections in this new acquired business. But now, the way the business is growing and the cycles are moving, I am 100% sure that the only correction we need is to have a positive market EBITDA.

Keshav Lahoti: Got it. Thank you for such a detailed explanation.

Sandeep Engineer: Thank you.

Moderator: Next question comes from the line of Praveen Sahay with PL Capital. Please go ahead.

Praveen Sahay: Yes. Hi, sir. Thank you for the opportunity. My first question is related to the adhesive. Surely, like 25% of our revenue growth you have delivered, it's quite strong. Can you give some particular context on its related to the underlying demand or just the market share gain you are gaining, because of that such kind of revenue growth is coming, one. Second is that largely volume-led or it's price-led largely?

Hiranand Savlani: Saumya, can you reply this?

Saumya Engineer: Yes. I think it is market demand also, and at the same time, I think select geographies where I would say we have been weak predominantly, and now we are slowly and gradually kind of building our bases there and expanding on those distribution networks and all those things. I think it is a mix of both.

I wouldn't just say it is plainly market share game because market's also growing and other competitors are also growing. I think it is a mix of both, but definitely in terms of our volume and value, it is both in double digit and volume is also up there matching our value growth percentages.

Praveen Sahay: Okay. So, it's largely a volume-led growth you are seeing?

Saumya Engineer: Yes.

Hiranand Savlani: Praveen, more of this volume-led, value will be hardly any additional thing, but sizably on the volume side.

Praveen Sahay: Right. Secondly, one data point. Is it possible to share the sanitary ware at what like we break even or still in the losses?

Hiranand Savlani: See, it is very difficult now for us to work out the separate for the sanitary ware, because the reason is that it is a part of the plumbing and the sizable products of plumbing division is manufactured in the same plant. It is difficult to arrive, but you can consider it will be a very, very negligible kind of positive EBITDA. So break-even plus something.

Praveen Sahay: Right. Thank you and all the best.

Hiranand Savlani: Thank you very much. Thank you.

Moderator: Thank you. Next question comes from the line of Sneha with Nuvama Wealth Management. Please go ahead.

Sneha: Thanks a lot for the opportunity, team. Just couple of questions from my end. Sir, you alluded around INR1,150 crores odd of EBITDA this particular year for the plumbing division. If my math is correct, you also mentioned about around 290,000 tons of volume. So EBITDA per ton, the way I would want to look at it will be around INR40,000.

Even if I would want to look at it as in terms of revenues, which I just multiplied by current utilization, the margins would actually come out to be around 20%-21% odd. Just wanted to understand, will your volume be a beat once is what we are expecting, or there will be substantial improvement in margins? That is first.

In case we have already started to see that in the month of October, while you said it is happening with lag, have we seen EBITDA margin improvement in the month of October itself? That is the first one.

Hiranand Savlani: We have seen a sizable improvement into the EBITDA in October. Secondly, I already communicated in the beginning that pass through whatever was there, the substantial price rise

took place in the month of September for the polymer has taken place in the month of October. So that has also supported us in the higher EBITDA margin in the month of October. But I am not considering only one month.

We are considering the next six months. These are all our seasonal months. I am telling you this because of the history. If you see the last year number also, the ratio was 60/40 only. So 40% in the first half and second half was 60%. If you see last year, INR916 crores of EBITDA which we generated in plumbing business, INR369 crores we generated in H1, and the H2 we generated INR547. So it is a trend.

Even in previous year also, if you see FY2024 also, the similar kind of trend is there, 42%, 43% kind of EBITDA was generated in H1, and 56%-57% EBITDA generated in second half. Normally it is a trend. Secondly, you are tracking company for so many years, so I am sure you must be aware that the second half is loaded with more of CPVC and the value-added product than the first half.

First half is always loaded with more of the PVC front. The margins are much better in the value-added product and the CPVC. That also support us. And third thing, whatever the expenses which we wanted to incur to start this multiple plant, the capex which we have done sizably, the economy of scale advantage was not available to us because the volumes were not there.

Now volumes have started picking up and utilization level is going up, plus inflationary environment is there. That is also going to help us. Now suppose my top line is growing 10%, 15% higher than the volume, then the overhead absorption will be better in our favor. My cost is, fixed overhead is going to remain same, but in percentage term, my EBITDA will shoot up because my top line is growing faster than the volume.

And in the presentation of analyst meet also, in the last quarter con call also, we communicated that this is the first year we are seeing after three years that the value growth is higher than the volume growth. And that is going to help us to absorb our overhead. All these things are favorable in our side, and that is going to contribute us in the second half. Exactly per kg and all, I have not done the calculation, but definitely tomorrow you can call me. I will share that working with you.

Sneha: Understood, sir. Sir, second was, I know it is too early, but if you are expecting around INR1,250 odd crores of EBITDA in FY2027, how should we just look at the EBITDA growth for next year? Can it be 15%, 20% odd percent?

Hiranand Savlani: I think, Yes, you can consider that kind of 15% kind of growth easily you can consider.

Sneha: Understood, sir. That is it from my end. The rest of the questions, sir. Thank you a lot, team. All the best.

Hiranand Savlani: Thank you.

Durgesh Shukla: Hello.

Moderator: Next question. Yes, Mr. Shukla, please proceed ahead with the question. Mr. Durgesh Shukla.

Durgesh Shukla: Hello, sir. Thanks for the opportunity. The question has already been answered, so nothing from my side.

Hiranand Savlani: Thank you.

Moderator: Thank you. Our next question comes from the line of Tejas Pradhan with Citigroup. Please go ahead.

Tejas Pradhan: Yes. Hi. In terms of the plastic plumbing capacity, correct me if I'm wrong, our current capacity would be around 500 KT?

Hiranand Savlani: No, I think we have given in the press release our capacity 400-

Kairav Engineer: 425 or 400.

Hiranand Savlani: It is 425.

Kairav Engineer: 425.

Tejas Pradhan: Okay. In terms of then capacity additions for FY2028, right? Add, say, 300 KT of volumes for FY2027 will be at the higher end of utilization that we have operated historically, right? What is the quantum of capacity you are looking to add into next year?

Kairav Engineer: Basically, we have enough land available with us and enough building available with us, and we can add capacity at a short notice because the machinery lead time is not much. If need be, we will take a call as and when needed. We are not going to work and think too much in advance. We have the spaces available with us, so whenever we want to ramp up, it is only a matter of one or two quarters to ramp up.

Hiranand Savlani: Like we opened up the Kanpur plant, there we can add more capacity. We can add the capacity in Hyderabad also. We can add the other plants also.

Kairav Engineer: Basically, in short, I can say that we have enough land and building available that if you want to add another 100 KT, we can do it in a matter of six to nine months.

Tejas Pradhan: Okay. What would be the capex requirement for, let's say, 100 KT of capacity addition, given that it will be brownfield?

Kairav Engineer: Depend on the product mix, actually. But since majority in any capex, 60%-70% of the cost is land and building. That is already there. So incremental cost to add this 100 KT will not be as much as setting up a greenfield expansion.

Sandeep Engineer: I can tell you one more thing about this capex which we have done. In the last three years, we have had enough land for all the growths for next two to three years for all the businesses, whether it is the business of the pipe business or tomorrow the chemical business or the chemical

CPVC plant. We have enough land even to triple the capacities and all, or whether it's the paint business or whether it's the adhesive business.

We have also added a few or main spaces for putting the machinery. So coming years, the capex will be in a lower end, especially with the land being acquired, which is a costly asset now. Most buildings being built, which are again cost affairs now, and the machinery addition would be the main thing which will go ahead in the years.

Tejas Pradhan: Understood. Lastly, on the CPVC backward integration project, once it gets commissioned, say, in the fourth quarter, what would be the typical ramp-up time for the full capacity utilization?

Kairav Engineer: I think maximum one quarter it will take.

Tejas Pradhan: Okay, understood. That is it from my side.

Hiranand Savlani: Okay.

Kairav Engineer: Thank you.

Hiranand Savlani: Thank you.

Moderator: Thank you. Next question comes from the line of Rahul Agarwal with IKIGAI Asset. Please go ahead.

Rahul Agarwal: Yes. Hi, sir. Good evening. Most questions got answered, but just referring to what Ritesh was discussing on working capital. Your decision of not incurring forex losses and making vendor payments quicker, is this more of a long-term decision, or is it just based on current environment?

Hiranand Savlani: No, that is based on the current environment, because right now the rupee was sharply depreciating. We took a call that we do not want to unnecessarily fall under that trapping, because very difficult to predict the currency. At least we are not that expert to predict that currency.

Because of that, we decided that whatever price it is coming to us, we have to pass on accordingly to the market. Better in this environment to avoid the currency risk. Otherwise, I think once the normalcy will come back, then I think again payable days will be the similar level only, what was there earlier.

Rahul Agarwal: Got it, sir. Secondly, Hiranbhai, you mentioned on overheads, and our own understanding was that last two, three years, there has been quite a bit of OpEx you have incurred, which incrementally should actually not increase with that level. But even when I look at first half, your OpEx is still increasing by 19%-20% Y-o-Y. Why is that happening?

Hiranand Savlani: But again, that you see the top line growth is even better.

Rahul Agarwal: Yes, sir, that is true. But just in terms of fixed cost-

Hiranand Savlani: My top line growth is 26%.

Rahul Agarwal: Yes, sir, I know that.

Hiranand Savlani: You know, always the reduction doesn't take place overnight. It's a process, because if anywhere we feel that this cost is high, even if we today decide that we want to reduce, it's a process. I can't overnight change the thing. So, because of that, with the lag, things are happening, and that is why you are seeing that things are improving. Particularly if you see this quarter, you will see there is a much better position.

So slowly and gradually, we are of the view that the operating cost will not go up from here on. It is every quarter on quarter, percentage term, it will keep falling, and falling. In the Q3, it will be further benefit because whatever the pass-through has taken place in the month of October, that benefit will be available in Q3 only.

The overhead will be further percentage term will go down. Like this one, I think quarter roughly, I don't have exact number, but somewhere around INR190 kind of realization was there. But the next quarter, we are expecting it will be more than INR200. This is going to help to absorb the overhead much faster. Wait for some more time, but at least from here on, you will see there is a reduction.

Rahul Agarwal: Got it, Hiranbhai. Thank you so much for answering my questions and happy Diwali to everybody.

Hiranand Savlani: Thank you. Same to you.

Moderator: Thank you. Next question come from the line of Arun Baid with ICICI Securities. Please go ahead.

Arun Baid: Just one clarification. For the India adhesive business, what is our guided for the full year?

Hiranand Savlani: We have guided 14%-15% kind of minimum EBITDA for the full year. That was our original guidance.

Arun Baid: Correct.

Hiranand Savlani: Again, that first half, we are at 11.5%. We are expecting that year-end, we will be closer to 13%-14% kind of run rate.

Arun Baid: Okay. So this you are saying for the full year, that would be around 13%. Am I correct?

Hiranand Savlani: Full year.

Sandeep Engineer: But I think looking to the way the crude is behaving and some of the chemicals have started softening and some of the materials which we will make in-house also through DSS, we will, and we all will work harder to be around 14%, and this is what we will be working for next two quarters by the year-end.

Arun Baid: Okay. Just, sir, that roadmap, with regards to which is the question asked before this, was that roadmap for overhead expenses, which had gone up for various reasons. So that roadmap will be clearly visible quarter-on-quarter to us as investors over the next few quarters?

Hiranand Savlani: Yes, yes. That is what I communicated to Rahul, that you wait for the Q3. You will see the improvement in Q3 itself.

Arun Baid: Right, sir. Thank you very much for this.

Sandeep Engineer: No, no, that roadmap will be completely visible, and that roadmap is all on our mind. You will see the roadmap in Q3 and Q4 itself.

Moderator: As there are no further question from the participant, I now hand the conference over to the management for closing remarks. Thank you, and over to you, team.

Sandeep Engineer: Thank you everyone for joining us in the first half results and the Q2 results of Astral, all the businesses. There have been challenging times, there have been challenging quarters in the past also. But Astral has been very clear about its path going ahead of growth, maintaining margins, and continue to grow and deliver in every business.

At the same, Astral has always been very, very transparent in coming, communicating, and giving the numbers and the future guidelines. I am sure that you will appreciate this, and there are quarters in the past and happens, one or quarter comes, but at the same time teaches us many things, and we are always bounced back with better quarters immediately. This is what our guideline is, and this is what we are working on.

We will come back to you with the next quarter and the year-end. So, thank you everyone for joining us and wishing everyone a happy Diwali, happy New Year, and the best wishes to everyone.

Hiranand Savlani: Thank you, Pranav, for hosting this call, and thanks everyone for all the participant, and wish you all a happy Diwali and happy New Year in advance.

Moderator: Thank you so much.

Kairav Engineer: Thank you, everyone. Wish you a very happy Diwali and a very happy New Year. Thank you.

Sandeep Engineer: Samuya, you want to say something? Hello? Okay. Thank you, everyone. Thank you.

Moderator: Thank you so much, team. Ladies and gentlemen, on behalf of Equirus Securities Private Limited and Astral Limited, that concludes today's call. Thank you for joining us, and you may now disconnect your lines. Happy Diwali and happy New Year.

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