Operator: Ladies and gentlemen, good day and welcome to the Astral Limited Management Conference Call hosted by Investec India. 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 this 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. Ritesh Shah, Joint Head of Research and Analyst for Midcaps, Materials, and ESG at Investec India. Thank you and over to you, sir.

Ritesh Shah – Investec India: Thank you, operator. Thank you all for joining on a Saturday afternoon. The idea of hosting this call on short notice was to have a brief on the approved merger straight from the management. Please note, there won't be any questions with respect to the quarter, which shall be taken up later. Today we have with us Mr. Sandeep Engineer, Mr. Bhairav Engineer, Mr. Saumya Engineer, and Mr. Hiranand Savlani. I will request Hiranand and Sandeep to first run through the rationale for the timing and the structuring of the transaction in their initial remarks, after which we will have a Q&A for all investors. Thank you and over to you, Sandeep.

Management: Thank you. Good afternoon, everyone, and thank you for joining us on short notice. First, let me brief you on why we have proposed to demerge the two businesses and two verticals. There are many initiatives happening in both businesses, and we would like to go through everything.

Firstly, the adhesive business has been on a continuous growth path. Many chemistries have been added in the last 1.5 years. We have almost completed our expansion at the Dahej plant. The fully automated solvent cement plant is under trials and will be operational in a short time. So, the capex cycle at Dahej has almost been completed. We are also pleased to let you know that there is a lot of pull coming from construction chemicals, and construction chemicals is growing equally. We have also introduced many new products; for example, white glue has been growing at a good pace. We have also manufactured certain products ourselves, such as electric tapes made in India. Many such products, which we were actually importing and just repacking and selling, have come into production in the last couple of years and months.

Regarding paints, that segment has been giving us good growth. The capacities are already there, so there is a minimum capex cycle expected, except for some small capex for setting up decorative paint in the western region. The southern region already has its plant, and we have taken ample land to suffice the growth of the complete chemical, adhesive, and paints division for the coming 2 to 3 years and even 5 years. So, there is no large capex cycle expected on that front either.

Recently, we acquired a state-of-the-art facility and a very large R&D setup called DSS Limited. DSS has many products in its basket which have been researched. Some of them have recently gone into commercial production, and these are all products used in the adhesive business for making epoxies and many other products; some research is also related to the paint business. DSS is providing products that India does not currently make; we previously had to import them from outside to use them.

Now that we have a commercial setup and have started commercial production at DSS, at some stage, we would like to scale up the production facilities at DSS and establish a state-of-the-art chemical facility. Actually, the capex cycles are not very heavy here, but there are significant benefits from using the product in-house, and there is huge potential for export. When we are continuously meeting our respected investors, there was often confusion between the businesses we entered—one was a purely chemical-based business which also had a good cycle and growth, and similarly, we had a piping business which was growing at a pace, and a faucet and sanitaryware business. This structuring gives everyone a clear picture of both verticals—how they are performing, growing, and how the future stands.

In adhesives, I would also like to bring to your notice, without citing specific numbers, that as we have communicated, the UK and US businesses have been doing excellently well. We will shortly provide numbers for you, but they have been growing and converting into good EBITDA margins. There are many opportunities in the UK which have started coming our way, which will help us use the facility at a higher scale. There are several large customers and big DIY stores that are now in the process of tying up to buy products from Bond It or Seal It. Similar developments are occurring in the US. In the US, apart from silicon tapes, the other products we manufacture there have also started going to the market. We would like to provide more perspective during the Q&A, and Hiranand will also share more.

One more thing is that this whole process is a long one. By the time it concludes, we will be finishing the fiscal year, and by the end of the fiscal year, there will be substantial numbers for both the chemical business and the pipe business. It was a process where there were considerations about the timing, but given the whole process and the time cycle, we are sure that by the time this process is finalized, the numbers will be at a level where everyone will feel this was the right moment for this to happen.

Coming to the pipe business, the CPVC plant is ahead of the cycle and the timeline we communicated. We would be ready with production of CPVC by the end of the fiscal year, and CPVC will help our piping business not only in terms of growth but also in improving margins. In the piping business, our Pex-Al-Pex, a state-of-the-art product, is starting in a couple of months. Certain products are growing at a good pace; again, we will communicate this when we connect with you in the next 1.5 months. Certain new products in drainage are already launched, and OPVC is at full scale. We have also launched PPR and HDPE pipes for certain gas applications; we have already started getting good traction on several of the products we added.

Al-Aziz is also now on a full track and growth path. Secondly, the faucet segment has been a growing phenomenon for us. It will continue to grow and is progressing at a better pace. We would like to take more initiatives for its growth and take steps to ensure that growth continues. At the same time, we have established facilities for pipes at different locations, so the capex cycle is already at a level where it will not be very high. Using these capacities and adding a few machines at these locations will generate a good amount of growth and revenue in the piping business.

When we come to the question and answer session, I will be ready to answer any queries you have on both businesses. Saumya, Bhairav, and Hiranand are also here. We will be extensively addressing all your questions and concerns and making the steps we have taken transparently clear. These steps were taken consciously for the betterment of both businesses in terms of transparency, growth, and future prospects over the next one to two years. We are very sure that this will help us maintain our growth path.

Secondly, the capex cycles are not heavy. The manpower cycle in adhesives is coming under great control, and we will be discussing that over these three quarters as we reveal the numbers. At the same time, we are getting good traction and have achieved a scale reduction in manpower even in the piping and faucet division. I will now hand over to Hiranand to take you through other aspects before we proceed to the Q&A. Thank you very much.

Management: Good afternoon, everyone. Sorry to trouble all of you on a Saturday, but this was the need of the hour. We thought it better to clarify rather than allow rumors to circulate in the market. We want to clarify from our side so there is no doubt in anyone's mind. Let us first understand the structure of the company. There has been some confusion regarding the structure. We clearly outlined the structure and the message in our press release regarding how we are dividing the two businesses.

The message is clear, but we will clarify any remaining doubts here. All businesses related to chemicals will form part of Astral Coatings, now Astral Chemi, and all businesses related to pipes will be combined in the pipe entity. There will be two entities in the future: Astral Chemi, which will include the chemical-related businesses, and Astral Limited, which will include pipes and bathware.

To provide more clarity on the individual companies: Al-Aziz is completely into manufacturing electrofusion fittings, so it is related to pipes and will be merged with the pipe division. We have an 80% stake in Nexxlon, which manufactures CPVC resin; this is also connected with pipes and will be under the piping umbrella. Thirdly, Astral Foundation, which handles CSR activities, will be common but will be part of Astral Limited. Seal It UK is an adhesive-related business, so it will be part of the chemical business. Similarly, the paint business will be part of the chemical division under Astral Chemi Limited. Seal It US is a subsidiary or step-down subsidiary related to adhesives under Seal It UK, so it will also move to the chemical business. Similarly, Seal It Ireland, a small step-down subsidiary we opened to take advantage of the tax structures of the UK and US, will fall into the chemical division. Finally, the recently acquired specialty chemical business, DSS LLP, where Astral has a 60% stake, is chemical-related and will fall under Astral Chemi Limited.

In the future, Astral Pipe will have only two constituent companies: Nexxlon and Astral Foundation. The Kenya venture is shut down; only the land remains. When that land is sold, we will receive the proceeds and shut down the company. Until then, we must keep it operationally on our books, so Kenya will also form part of the pipe division.

In the chemical division, the paint business (Astral Coatings) will be included, and the adhesive division currently in the pipe entity will demerge and move to the chemical division. Seal It UK, Seal It Ireland, Seal It US, and the recently acquired specialty company DSS will also be part of the chemical division.

As Sandeep explained, the objective of the demerger is clear: we want high growth in both verticals and to maintain capital discipline. Every business should generate its own cash flow to be deployed in its respective growth so that there is no inter-linking between the two companies.

Secondly, there is high synergy between the paint and adhesive businesses. Many dealers and distributors are common, warehouses will be common, and plants will be of a size that helps each other. This synergy will help us save a lot on costs, which is why we decided to merge them. Otherwise, we would face operational discomfort, related party transactions, and transfer pricing issues. Combining these entities helps resolve these operational challenges.

The overlap between the two businesses is limited only to solvent cement. Astral sells one brand, Weld-On, which is roughly a 100 crore brand. Out of our total adhesive business of 225 crore to 250 crores, 40% is with Astral because Astral sells only this brand. Our adhesive division has multiple solvent brands—Solobond, Truzo, and Embond—which are sold directly to dealers and have no relevance to the pipe business. They sell independently to different categories of dealers. Thus, the overlapping of the two businesses is only to the tune of 100 crores. In the future, Astral Chemi will manufacture these, and Astral will buy from them, or the adhesive division can sell directly to the piping vertical. Otherwise, there is no overlapping.

Regarding the numbers, for the last completed fiscal year, the chemical division had revenue of 1,861 crores with an EBITDA of 192 crores. This was low in terms of EBITDA because, as clarified earlier, the paint business is new and expanding rapidly. We have added significant overhead, but this year that expansion will conclude, and we have already communicated that we will be EBITDA positive, so we do not see any drag on profit from that division.

Sandeep has already clarified that whatever capex is needed for that division, whether in adhesives or paint, will be completed this year. For the next 3 years, we do not foresee any large-ticket capex—perhaps small capex of 25-30 crores or 40-50 crores—but that business is self-sufficient to fund it from internal accruals. With 192 crores in EBITDA this year, next year will be sizeably higher. Even at a hypothetical 250 crores of EBITDA, I do not think that business will have any shortage of cash because further large capex is not required. Additional funding will be for working capital to support growth.

Regarding the recent acquisition of DSS, it is a high-growth and high-margin business. We have communicated that the margin profile will be 20-25% EBITDA. That business is going to generate significant cash flow in the next 3 to 5 years. With minimal capex, perhaps 10-15 crores max, they are going to generate 150 crores in revenue. With 150 crores in revenue and 20-25% EBITDA, that business will generate 30-40 crores in EBITDA from next year onward. It will be self-sufficient for its future growth.

From here on, we do not see any large-ticket capex requirements in the adhesive or chemical businesses because every segment is going to generate cash flow from this year onward, including paint and the UK operations. As Sandeep mentioned, we are already on a positive trajectory. Even for the last full year, we generated a positive EBITDA of 15 crores in the UK. We expect a sizeable improvement, potentially more than 100% improvement in EBITDA this year. The team there has settled down, including the new CEO, and we have started receiving large-ticket inquiries from major stores.

Pipe operations are generating high cash flow, and with the backward integration of CPVC, we are confident this business will take a new shape. We will be very aggressive in the market and continue to gain market share in CPVC. Over the last 10 years, Astral has consistently taken market share, and that run rate will accelerate with backward integration. Our plant will be ready by December, with trials in January, February, and March. We will get the full advantage of this vertical from the next full fiscal year.

Cash flow for that vertical is not a big challenge. We believe this is the right move at this stage because demerging later at a larger scale would pose greater operational challenges. By the end of the year, the adhesive business will be close to 2,300-2,400 crores, which is why we have made this decision. I now want to open the floor for questions. Thank you.

Operator: Thank you. We will take the quest question from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti - HDFC Securities: Hello, congratulations on the structuring and thank you for the opportunity. I just want to understand the total size of the demerged entity. I ask because the press release mentions an amount of 12.6 billion, but if we combine chemical and paint, the number seems larger.

Management: In my initial remarks, I mentioned that the adhesive and chemical division's number for last year was 1,861 crores with an EBITDA of 192 crores. These numbers were published in our last presentation during the analyst meet. We are going to provide a separate P&L and balance sheet for both the chemical and pipe verticals shortly. By the time we have the Q1 call, we will have those separate financial statements ready to provide clear clarity.

Keshav Lahoti - HDFC Securities: Understood, that would be helpful. The press release figures were causing some confusion. Secondly, regarding the demerging of this business, would the growth of the company accelerate further? How will the management structure work for both companies?

Management: We clearly stated that with this demerger, we are moving into a higher growth trajectory. It is more of a fast-track growth strategy. Decentralization of power always helps an organization, and that is why we have done this. We are confident this will be reflected in the coming periods. Once some time has passed, you will see us growing at a very fast pace in both businesses. Regarding the management, I will remain at the helm for both companies. Bhairav, Saumya, and Hiranand will play their roles, but I created the pipe business from scratch—bringing in CPVC, creating new verticals, and innovating products. We are continuing that innovation by going backward into CPVC and establishing our own faucet and sanitaryware plants. Similarly, we see great growth opportunities in the new chemistries and products we have in adjectives, such as epoxies and cyanoacrylates. We are also bringing new products for waterproofing and construction chemicals. In paints, there are many innovations and new technologies we are working on. We will grow both verticals. Adhesives and paints are B2C businesses, and the backward integration in the pipe business is also helping. Pipe is majorly B2C but also involves B2B projects. Both divisions will grow independently and generate their own cash flows.

Keshav Lahoti - HDFC Securities: Understood. All the best to the team.

Operator: Thank you. We will take the next question from the line of Sneha Talreja from Nuvema Wealth. Please go ahead.

Sneha Talreja – Nuvema Wealth: Good afternoon, team. Couple of questions—usually we see this kind of demerger happening at a more mature stage. Could you tell us what you saw as the pluses and minuses while looking at the demerger of these businesses?

Management: There were many pluses. One is that while the products go into the construction world, the way they are sold and perceived is different. Adhesives is completely B2C, whereas pipe has a B2B project component. Secondly, the manufacturing is different—one is polymer-related and the other is chemical-related. Thirdly, adjectives and paints go hand-in-hand in terms of sales, uses, and the commonality of the applicators. There is also the aspect of transparency for our investors; it removes confusion by providing clarity on the two verticals that operate in the same market but have distinct characteristics and growth prospects. Both are pursuing backward integration and new initiatives. We felt both "babies" should grow independently. By the time they are demerged, the capital cycles will be mostly completed, providing a greater impetus for delivering numbers as the fiscal year proceeds. Doing this at a larger size would have been more challenging. While there are always small operational minuses, looking at the synergies, organization, and structure we have for innovation and backward integration, we believe this will yield positive results from all angles.

Sneha Talreja – Nuvema Wealth: Since you mentioned there are commonalities like branding and distribution, can you explain how branding and distribution will grow separately?

Management: There has been no commonality in branding. When you make an advertisement for white glue, it is a white glue ad; you cannot say it is both a pipe and a white glue ad. For instance, when Ranbir Kapoor promotes white glue, he does not mention the pipes. Regarding distribution, piping channels only overlap with construction chemical sales. Most B2C adhesive and paint products use a direct-to-dealer model with no distribution channel in between. In adhesives, distribution is decentralized; while we might have six pipe distributors in Ahmedabad, we would need 10 to 15 adhesive distributors to cover the shops in that region. The commonality is more from a user perspective than a distribution pattern. Faucets and sanitaryware are sold through many pipe distributors because they go hand-in-hand, but many new showrooms deal only in faucets and sanitaryware. Regarding warehouses, pipe storage does not require the same level of fire protection as adhesives, so we need to differentiate how we store them even if they are on common premises.

Management: To add to that, the parent brand will remain Astral. It will complement both businesses. Historically, when people said "Astral," they only thought of the pipe business. Even though we were leading and ranked second in the adhesive market with a lot of hard work, "Astral Chemi" will help push the chemical business out of that shadow so it is perceived as its own entity. It is a very practical thing that will help us in the future.

Sneha Talreja – Nuvema Wealth: Got it, sir. Thank you so much and all the best.

Operator: Thank you. We will take the next question from the line of Tejas Shah from Citi Group. Please go ahead.

Tejas Shah – Citi Group: Hi. On the broader Astral brand, would both listed entities have access to the brand, and is there a brand fee arrangement?

Management: Both will have access to the Astral brand. There will be no brand fee.

Tejas Shah – Citi Group: Regarding the revenue contribution of solvent cement to the adhesive segment, can you repeat the overlapping figure?

Management: The overlapping is only 100 crores, which is the Weld-On brand. The other three brands—Solobond, Truzo, and Embond—are separate. That brand category itself is at a 125 crore level and sells directly to the market with no connection to the pipe vertical. Only Weld-On has that connection.

Tejas Shah – Citi Group: Regarding the dividend policy, the two businesses will have different cash needs. Astral currently has a 20% payout. How would that change for the two entities?

Management: To be honest, we have not yet decided. The board will decide that policy. We may communicate that once this process gets over in about 9 months.

Tejas Shah – Citi Group: Could you share the FY24 revenue and EBITDA for India adhesive, UK, and the paint business?

Management: India adhesive revenue was 1,263 crores and EBITDA was 191 crores. UK adhesive was 385 crores, EBITDA was 15 crores. Paint was 240 crores with a negative EBITDA of 14 crores. The total was 1,861 crores in revenue and 192 crores in EBITDA.

Operator: Thank you. We will take the next question from the line of Ritesh Shah from Investec India. Please go ahead.

Ritesh Shah – Investec India: Thank you for the opportunity. Saumya, if we look at Resiwood, it is at 1,260 crores. If you take out the 100 crores for solvent, we are looking at a base of 1,160 crores. What is the quality of this revenue base? Sandeep indicated we are leading in several chemistries. Can you highlight the market share for PVA, epoxies, epoxy putties, and cyanoacrylates? You indicated a 20-25% CAGR over the next 4 to 5 years; what is the strategy by chemistry?

Management: Briefly taking you through the points, if we remove solvent cement, we remove roughly the 100 odd crores associated with Weld-On. Solobond, Embond, and Truzo still operate within the division, so the base is higher than 1,000 crores. In terms of solvent cement, when you combine the Astral family of brands, we hold the number one position in the Indian market. The chemistries the India adhesive business operates in include epoxies, epoxy putties, solvent cement, cyanoacrylate, silicon, PVA, and construction chemicals (waterproofing, coatings, and cementitious products). We are in woodworking adhesives (white glue, PVA) and rubber adhesives for furniture applications. We are also expanding into the tape market, including plumbing, electrical, and paper tapes, and going backward into manufacturing those. Every product Astral produces is made in-house, supported by a strong supply chain and manufacturing footprint. This gives us confidence in our 4 to 5-year growth aspirations. The adhesive and sealant market in India is a niche market with very few players. We are positioned very nicely. In silicon and epoxy chemistries, we are in the top three positions in the Indian market. We have 10 chemistries split into specialized selling verticals with a specific focus. We reach almost 2 lakh unique outlets in the adhesive business. In rural markets, we reach 13,000 towns and want to expand to 20,000 towns in the next year or two.

Management: The best part is that in DSS, most products are import substitutes. That makes scaling that business very fast and profitable. There is also a significant export opportunity. For example, we recently acquired an export order where the cost of the chemical is 65 Euros per kilogram. You can understand the level of specialty and the high margins. We are targeting 500 crores in revenue over the next 4 to 5 years, which will generate a huge margin for the chemical vertical.

Ritesh Shah – Investec India: To clarify, when you say next year, you are referring to FY25?

Management: FY25, 150 crores.

Ritesh Shah – Investec India: Does that 150 crore include internal consumption from the backward integration?

Management: It is a combination of both. As of this month, we have started commercial production of two products which will help in both ways—improving margins and improving the overall chemistry of the products.

Ritesh Shah – Investec India: Regarding the cash and investments on the balance sheet of around 940 crores, how will that be divided?

Management: The working is ongoing. We will be ready once the Q1 numbers are out. It is too early to say exactly, so please wait until our July end call.

Ritesh Shah – Investec India: Sandeep indicated Dahej expansion, paint expansion in the west, and DSS capex. Can you put a cumulative number on these and what the best-case revenues would be?

Management: For DSS, the first stage of expansion will be about 8-10 crores, which is not substantial. The second stage will likely come at the end of FY26. For the first 150 crores of revenue, the 10 crore capex is enough. That company is self-sufficient. Regarding adhesive and paint expansion, that will be completed this year. From next year, it will be routine capex of 14-15 crores for product additions. We are also expecting another 50 to 60 crores of cash flow from the adhesive division this year because we are selling our office in Bangalore. We no longer need that office as we are consolidating our head office in Ahmedabad. Overall, I do not see any big issues with cash flow. Whatever requirement exists, they will be able to fulfill it through internal accruals.

Analyst: Any accumulated losses, and how should we look at the tax rate for the new entity?

Management: For pipes, the tax rate will remain close to 25%. The adhesive tax rate will be low initially because of the write-offs we do every year. We are amortizing close to 27 crores. Plus, we have the accumulated losses of the paint division from the last couple of years. This will provide a benefit, so the tax rate for that entity will be lower than for pipes.

Analyst: Sandeep, looking at the holding, I assume this proactive step is to ensure things move smoothly for the next 40 years. How do you see the holding structure 10 years out?

Management: The holding pattern will remain exactly as it is today. The holding will be in the name of myself, my wife, and our entities, Saumya Polymers and Kairav Chemicals. There will not be any changes.

Operator: Thank you. We will take the next question from the line of Utkarsh Nopany from Anand Rathi Shares and Stock Brokers Limited. Please go ahead.

Utkarsh Nopany – Anand Rathi: Good afternoon, sir. Regarding the return ratio profile of the chemical division, it appears it is making an ROE in the mid-single digits, whereas plumbing is around 17-18% in FY24. Will the return profile for chemicals be significantly lower going forward, or can it reach the levels of the plumbing division as Seal It and the paint business improve?

Management: Your understanding of the current numbers is correct, but that will change. In the piping division, we spent a lot on expansion to decentralize with plants in the south, east, and now north. Sizeable capex and high cash levels drag your return ratios initially. In the future, large capex is not needed for that vertical, so the return ratio will shoot up. For additives, we spent a lot on paint and adhesive expansion and invested in new businesses. Last year, the paint and UK divisions did not generate high EBITDA; paint was negative. This year, we are confident both will be positive. Paint will have a lower single-digit EBITDA, but UK will have double-digit EBITDA. By FY27, you will see it shoot up.

Utkarsh Nopany – Anand Rathi: What is a sustainable ROE for the chemical division over the next 3 to 4 years?

Management: By FY28, it will start pushing upwards, and by FY29 it will mature. For ROCE, we expect the pipe division to have a minimum of 20%, potentially reaching 25% in two years due to low capex and growth. For the adhesive division, once the specialty business gears up, we expect an ROCE of 15-17%. Later, we aim for a 20% run rate, but that will take 3 to 4 years.

Utkarsh Nopany – Anand Rathi: On the specialty chemical business, we expect revenue to go from 3 crores to 500 crores over 5 years. Why did the previous promoters decide to sell if the potential is that high? Who are the major competitors in India?

Management: The previous promoters were basically scientists. They were running an R&D facility rather than a commercial selling operation. They were innovators, not commercial people looking to scale a business. They wanted a commercial partner to scale the product. We talked for a year and shared our growth plan, which convinced them. Several products are ready to launch. From this month, we have started using the products in our plant and have started forward selling and getting export orders. This level of inquiry will lead to sizeable growth. With an additional 8-10 crores in capex for a few reactors, we can reach 150 crores in revenue next year. Previously, the revenue was just for testing—selling pilot plant quantities to customers for feedback. Value will come now with the commercial launch.

Utkarsh Nopany – Anand Rathi: What are the key products and competitors?

Management: It is quite technical, but they are focused on amines. India currently imports almost all amines. Segment-wise, we are focusing on adhesives for renewable energy (wind and solar) and products for defense. Our focus is on making these chemistries in India rather than importing them.

Ritesh Shah – Investec India: One question for Kairav. Sandeep indicated that CPVC resin would be ready by the end of the fiscal year. Is there a change in the date? I thought it was expected by December.

Management: We are planning for commercial production by Q1 next fiscal year. Everything is on track. Trials will be in Q4, so we expect some quantity like 3,000 to 5,000 tons in that quarter. Full capacity utilization will be from April onward, as communicated in the last call.

Ritesh Shah – Investec India: Any closing remarks from Kairav or Hiranand?

Management: In short, the decision was taken for the overall betterment and growth of Astral and its businesses. The family and the teams are working together and will continue to grow both verticals with the same aggression.

Management: The closing remark is that we are all one team. I will be leading, and this initiative is for the growth of two businesses which are going to create great landmarks in the Indian industry space. Our commitment is to create value for the Astral brand across both verticals.

Ritesh Shah – Investec India: Thank you, Sandeep, Hiranand, Kairav, and Saumya. Thank you to all the investors for joining.

Operator: Thank you. On behalf of Investec India, we conclude this conference. Thank you, everyone, for joining us today. You may now disconnect from the call.