Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Astral Ltd

Healthy demand outlook warrants upgrade to Hold

Building material	Sharekhan code: ASTRAL
Reco/View: Hold ↑	CMP: **Rs. 1,686**	Price Target: **Rs. 1,820** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	+	↔	+
RQ	+	↔	+
RV	–	↑	=

ESG Disclosure Score NEW

ESG RISK RATING Updated Mar 03, 2022	26.37

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 45,283 cr
52-week high/low:	Rs. 1,991/1,188
NSE volume: (No of shares)	1.6 lakh
BSE code:	532830
NSE code:	ASTRAL
Free float: (No of shares)	11.86 cr

Shareholding (%)

Promoters	56
DII	16
FII	14
Others	14

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	16.2	18.3	19.4	28.7
Relative to Sensex	13.3	17.1	19.8	15.4

Sharekhan Research, Bloomberg

Summary

- We upgrade the stock to Hold with a revised price target of Rs. 1,820, factoring upwardly revised estimates and higher earnings multiple considering healthy demand outlook over the next 2-3 years.
- In Q4, the company reported strong beat on consolidated net earnings led by better than expected OPM. Higher contribution from CPVC product sales and operating leverage led to strong beat on OPM.
- Management expects strong volume growth in plumbing business of 15-20% y-o-y for FY2024 while it retained its earlier guidance of growing its consolidated revenues at 15% CAGR over the next five years.
- Due to robust demand, it would be setting up 70,000 MT capacity Hyderabad, 15,000 MT capacity at Guwahati and undertake balancing expansions at existing locations.

Astral Limited (Astral) reported a strong beat on consolidated net earnings for Q4FY2023 led by better-than-expected OPMs. Consolidated revenues stood at Rs. 1,506 crore (up 8.3% y-o-y) as its plumbing segment reported 4% y-o-y growth in revenues at Rs. 1123.5 crore (aided by 15% y-o-y growth in volumes, while blended realisations declined 10% y-o-y). Paints & Adhesive reported 26.5% y-o-y growth in revenues at Rs. 388 crore. Consolidated OPM at 20.5% (up 492 bps y-o-y) positively surprised owing to higher revenue contribution from CPVC products and operating leverage. Strong operational performance led by operating/net profit growth of 43%/47% y-o-y at Rs. 309 crore/Rs. 208 crore, which were much higher than our estimates. The management expects strong volume growth in plumbing business of 15-20% y-o-y for FY2024. It retained its earlier guidance of growing consolidated revenues at a 15% CAGR over next five years. Due to robust demand, it would be setting up 70,000 MT capacity at a capex of Rs. 100 crore in a phased manner by FY2026. It will be commencing 15,000 MT capacity at leased Guwahati unit over 2-3 months. Additionally, it will be adding capacity at existing locations through de-bottlenecking.

Key positives

- Consolidated OPM expanded by 492 bps y-o-y and 581 bps q-o-q to 20.5%, led by higher contribution from CPVC products and operating leverage.
- Consolidated cash increased to Rs. 682 crore from Rs. 477 crore in Q3FY2023.

Key negatives

- Depreciation increased by 36% y-o-y and other income declined by 60% y-o-y.
- Blended plumbing realization declined by 10% y-o-y.

Management Commentary

- Company retained its earlier guidance given in FY2021 of doubling revenues over five years by FY2026. For FY2024, industry growth is estimated at 8-10% y-o-y while it is expected to grow its volumes by 15-20% y-o-y. Over the next five years, it is targeting to grow its topline at a 15% CAGR.
- Currently, it has its own manufacturing facility in Jamnagar for Sanitaryware/faucet leading to 40-50% in-house production. Over next few months, it would be manufacturing 100% in-house.
- GEM Paints reported Rs. 58-59 crore in revenues in Q4 with OPM of 14.5% while for FY2023, the revenues stood at Rs. 216 crore. Sanitaryware/faucet reported Rs. 22 crore in sales in FY2023 (operations started in H2).

Revision in estimates – We have increased our net earnings estimates for FY2024-FY2025, factoring higher OPM.

Our Call

Valuation – Upgrade to Hold with a revised price target of Rs. 1,820: Astral, like its industry peers, is expected to benefit from a strong demand led by the reversal of PVC prices since December 2022 along with expected improvement in operating margins. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets and sanitaryware, would remain key focus areas for the company. The stock is currently trading at a P/E of 81x/63x its FY2024E/FY2025E earnings. We estimate its consolidated revenues/operating profit/net profit to grow at a CAGR of 18%/22%/26% over FY2023-FY2025E. We upgrade the stock to Hold with a revised price target of Rs. 1,820, factoring upwardly revised estimates and higher earnings multiple considering healthy demand outlook over the next 2-3 years.

Key Risks

- Sharp improvement in adhesives business growth run-rate and profitability of the bathware business.
- Faster scale-up in revenues and profitability in new business verticals.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	4,394	5,159	6,026	7,136
OPM (%)	17.2	15.7	16.1	16.9
Adjusted PAT	484	457	559	725
% Y-o-y growth	*19.6*	*(5.6)*	*22.5*	*29.6*
Adjusted EPS (Rs.)	18.0	17.0	20.8	27.0
P/E (x)	93.7	99.3	81.1	62.5
P/B (x)	19.4	16.7	14.0	11.5
EV/EBITDA (x)	59.3	55.2	45.8	36.6
RoNW (%)	22.9	18.1	18.8	20.2
RoCE (%)	29.4	23.6	23.3	25.0

Source: Company; Sharekhan estimates

Strong OPM beat boost net earnings

Astral reported consolidated net revenues growth of 8.3% y-o-y (+18.8% q-o-q) at Rs. 1506 crore which was 8% higher than our estimate. The revenues from plumbing segment grew by 4% y-o-y (+21% q-o-q) to Rs. 1123.5 crore. The volumes in plumbing division grew by 15% y-o-y (+19% q-o-q) while realizations declined by 10% y-o-y (+2% q-o-q). The revenues from paints and adhesive business rose 25% y-o-y (+14 q-o-q) to Rs. 383 crore. The company reported consolidated OPM at 20.5% (+492 bps y-o-y, +581 bps q-o-q) which was much higher than our estimate of 15.6%. Plumbing business EBITDA margin stood at 22.8% (+522 bps y-o-y, +741 bps q-o-q) while paints and adhesives was at 15.1% (+182 bps y-o-y, +293 bps q-o-q). Consolidate operating profit rose by 43% y-o-y (+66% q-o-q) at Rs. 309 crore which was 42% higher than our estimate. Strong OPM expansion led to consolidated adjusted net profit growth of 47% y-o-y (+123% q-o-q) at Rs. 207.5 crore (60% higher than our estimate).

Key Conference call takeaways

- **Guidance:** The company retained its earlier guidance given in FY2021 of doubling revenues over five years by FY2026. For FY2024, industry growth is estimated at 8-10% y-o-y while it is expected to grow its volumes by 15-20% y-o-y. Over the next five years, it is targeting to grow its topline at a 15% CAGR.
- **Q4FY2023 performance:** Higher OPM was on account of economies of scale and high contribution from CPVC sale which is general trend for Q4. In Q1, there will be higher contribution of PVC product sales which would lead to lower EBITDA/kg. GEM paints reported Rs. 58-59 crore revenues in Q4 with OPM of 14.5% while for FY2023, the revenues stood at Rs. 216 crore. Sanitaryware/Faucet reported Rs. 22 crore sales in FY2023 (operations started in H2).
- **Expansions:** It will be adding 70,000 MT capacity at Hyderabad in two phases (Phase I of 30,000 MT by H2FY2025, phase II of 40,000 MT by H2FY2026) at a capex of Rs. 100 crore. It has leased plant at Guwahati and would start manufacturing 15,000 MT capacity by H1FY2024. The adhesives expansion at Dahej is over and it will be fully operational in two months. Apart from the above, it will be undertaking balancing expansions at existing locations.
- **Market size and market share:** Segment-wise market size and company's share is as follows Pipes – Rs. 37000 crore/9.6%, Adhesives – Rs. 18,000 crore/4.7%, Adhesives UK – Rs. 14000 crore/2.4%, Paints – Rs. 58,000 crore/0.4% and new businesses – Rs. 25000 crore/0.8%.
- **Paints:** It does not require any major investments in paints business as the existing capacity can generate Rs. 800-900 crore annual revenues versus Rs. 200-250 crore revenues currently. The actual outflow for acquisition of paints business will be Rs. 300 crore. This year, it will be rebranding paints business and hiring senior manpower. Over next few months it will re-launch the business which will cater equally to industrial and decorative paints segments.
- **Adhesives:** It has four segments in Adhesives viz. Maintenance (construction related), Industrial, Woods and construction chemicals. The addressable market opportunity in Adhesives is Rs. 1,50,000 crore.
- **Sanitaryware/faucet:** Currently, it has its own manufacturing facility in Jamnagar leading to 40-50% in-house production. Over next few months, it would be manufacturing 100% in-house.

Results (Consolidated) — Rs cr

Particulars	Q4FY2023	Q4FY2022	y-o-y (%)	Q3FY2023	q-o-q (%)
Revenue	**1,506.2**	**1,390.6**	**8.3**	**1,267.8**	**18.8**
EBITDA	**308.9**	**216.8**	**42.5**	**186.4**	**65.7**
Other Income	6.6	16.4	(59.8)	(2.0)	(430.0)
Depreciation	44.5	32.8	35.7	45.5	(2.2)
Finance Cost	3.3	5.2	(36.5)	9.4	(64.9)
PBT	**264.4**	**193.3**	**36.8**	**129.5**	**104.2**
Tax Expenses	65.4	49.2	32.9	34.6	89.0
PAT	199.0	144.1	38.1	94.9	109.7
Adj PAT	**207.5**	**141.4**	**46.7**	**93.0**	**123.1**
EPS (Rs)	**7.7**	**5.3**	**46.7**	**3.5**	**123.1**
Margin			**BPS**		**BPS**
EBITDA Margin	20.5	15.6	492	14.7	581
PAT Margin	13.2	10.4	285	7.5	573
Tax rate	24.7	25.5	(72)	26.7	(198)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong recovery in business operations

The building materials industry has been severely affected by COVID-19-led lockdowns during Q1FY2021, affecting its peak sales period. Additionally, its high fixed cost structure had affected OPM, dragging down net earnings. However, since June, the sector has been one of the fastest in recovery with the easing of the lockdown domestically. The sector witnessed a resumption of dealer and distribution networks and a sharp improvement in capacity utilisation. Most players have begun to see strong demand growth compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to show strong growth in FY2022-FY2023.

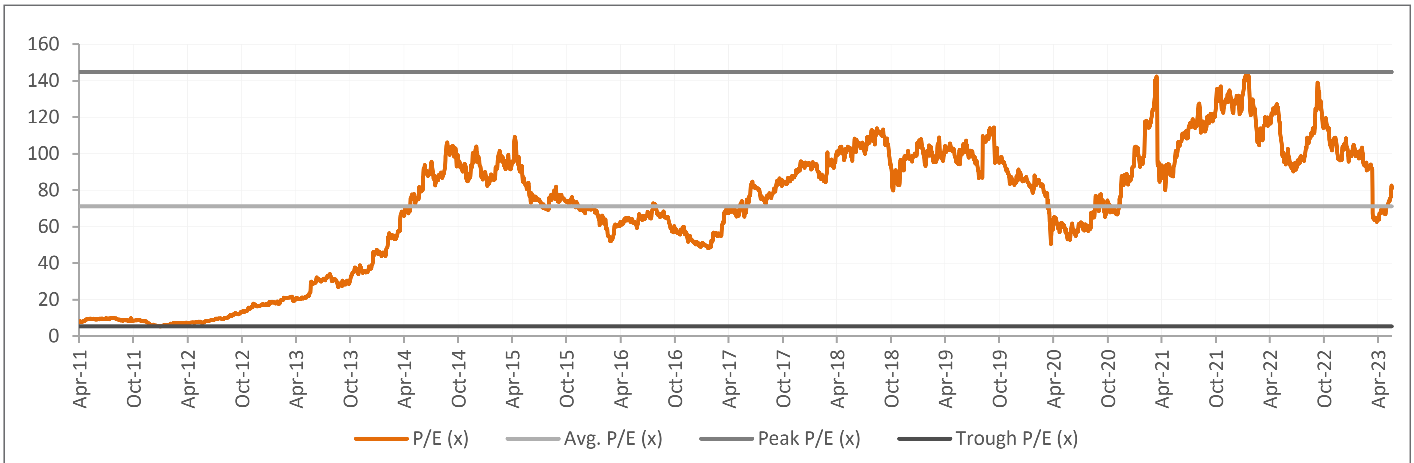
■ Company Outlook – Expect healthy growth in both Pipes and adhesives

Astral is well-positioned to capture the growth opportunities unveiled by the government through its various schemes such as Housing for All by 2022, PMAY, Smart Cities Mission, AMRUT, HRIDAY, Har Ghar Jal by 2024, Nal se Jal by 2024, and PMKSY. Capacity expansion and improved utilisation of expanded capacity to drive volume growth in the pipes business. Strategic steps taken during the last year in the adhesive business have now expected to show favourable results in a normal environment. Both pipes and adhesives businesses are expected to fare well over the long term, with pipe volumes expected to grow at 15% per annum, while adhesive is expected to grow at 20-25% per annum. Further, the company would be scaling up its new products.

■ Valuation – Upgrade to Hold with a revised price target of Rs. 1820

Astral, like its industry peers, is expected to benefit from a strong demand led by the reversal of PVC prices since December 2022 along with expected improvement in operating margins. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets and sanitaryware, would remain key focus areas for the company. The stock is currently trading at a P/E of 81x/63x its FY2024E/FY2025E earnings. We estimate its consolidated revenues/operating profit/net profit to grow at a CAGR of 18%/22%/26% over FY2023-FY2025E. We upgrade the stock to Hold with a revised price target of Rs. 1,820, factoring upwardly revised estimates and higher earnings multiple considering healthy demand outlook over the next 2-3 years.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Astral Ltd	110.7	81.4	59.4	47.1	15.2	12.9	14.7	17.2
Pidilite Industries	83.1	59.1	54.3	39.5	16.2	13.4	20.8	24.8

Source: Sharekhan Research

About company

Established in 1996, Astral is among the country's leading manufacturers of plastic pipes used across industries. The company is now making strong inroads into the adhesives segment and infrastructure products. Astral currently operates in four countries with manufacturing facilities at 12 locations spread across India, the UK, the US, and Kenya, having over 4,000 employees. The company has over 800 and 1,800 distributors in the plastic and adhesive segments. Astral is present across India through more than 30,000 and 4lakh dealers in the plastic and adhesive segments.

Investment theme

Currently, Astral has a market share of 25% in CVPC pipes and 5% in PVC pipes and is well placed to grab the significant growth opportunities unveiled by the government through its various schemes such as Housing for All by 2022, PMAY, Smart Cities Mission, AMRUT, HRIDAY, Har Ghar Jal by2024, Nal se Jal by 2024, and PMKSY. Strategic steps over the past year in the adhesive business have now expected to show favourable results in a normalised environment. The company's pipes and adhesives businesses are expected to fare well over the long term, with pipes volumes expected to grow at 15% per annum while adhesives are expected to grow at 20-25% per annum. Further, the company would be scaling up its tank business, complementing its pipe business.

Key Risks

- Sharp improvement in adhesives business growth run-rate along with the profitability of bathware business.
- Faster scale-up in revenues and profitability in new business verticals.

Additional Data

Key management personnel

Sandeep Pravinbhai Engineer	Chairman cum Managing Director
Jagruti Sandeep Engineer	Executive Director
Hiranand A Savlani	Chief Financial Officer
Krunal Bhatt	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Engineer Sandeep Pravinbhai	31.58
2	SAUMYA POLYMERS	9.83
3	Engineer Jagruti Sandeep	7.56
4	Kairav Chemicals Ltd	6.88
5	Axis Asset Management Co Ltd/India	3.81
6	Steadview Capital Mauritius Ltd	2.76
7	UTI Asset Management Co Ltd	2.22
8	Life Insurance Corp of India	2.11
9	Tree Line Asia Master Fund	1.5
10	Vanguard Group Inc/The	1.45

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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