Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Astral Poly Technik Limited

Focus on capacity utilization & new products scale up

Building material	Sharekhan code: ASTRAL
Reco/View: Buy ↔	CMP: Rs. 1,700 / Price Target: Rs. 2,050 ↓

↑ 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 26.37

Updated Feb 08, 2022

Medium Risk

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

Source: Morningstar

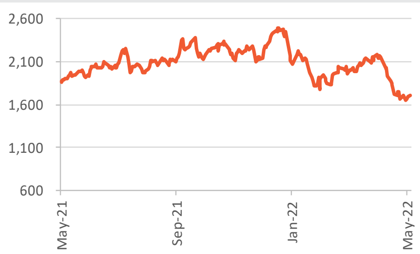
Company details

Market cap:	Rs. 34,160 cr
52-week high/low:	Rs. 2,525 / 1,610
NSE volume: (No of shares)	1.6 lakh
BSE code:	532830
NSE code:	ASTRAL
Free float: (No of shares)	8.89 cr

Shareholding (%)

Promoters	56
FII	13
DII	18
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-21.0	-12.4	-22.6	-9.4
Relative to Sensex	-19.0	-11.9	-20.6	-17.0

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Astral Limited (Astral) with a revised price target of Rs. 2050 led by a downward revision in earnings estimates.
- In Q4, the company reported higher than expected revenues although OPM disappointed due to weak margins in both pipes and adhesives.
- Company to focus on improving capacity utilization in pipes and scaling up new businesses viz. Plastic tanks, Valves, Paints, faucets and sanitaryware.
- Major expansion plans getting concluded in FY2023 and continued strong cash generation may result in higher dividend payouts or equity share buy back.

Astral Limited (Astral) reported marginally higher consolidated revenues at Rs. 1391 crore, up 23% y-o-y led by healthy volume (up 11% y-o-y) and realization (up 9.9% y-o-y) growth in Pipes (revenues up 22% y-o-y at Rs. 1109 crore) while adhesive revenues were up 29% y-o-y at Rs. 300 crore. OPM at 15.6% (-698bps y-o-y) disappointed led by cost pressures in both plastics (down 590bps y-o-y at 18%) and adhesives (down 676bps y-o-y at 11%). Hence, consolidated operating profit/net profit declined by 15%/19% y-o-y respectively. Astral has a strong cash balance of Rs. 557 crore while its major Capex plans would end by FY2023 leaving possibilities of higher dividend or buy back of shares. Its paints business acquisition for Rs. 200 crore is likely to grow to Rs. 600-700 crore in three years. The outsourced faucets & sanitaryware would be launched on June 10, 2022, and would be scaled to Rs. 500 crore revenues over 2-3 years. The pipes business is expected to continue at double-digit volume growth while adhesives revenues are likely to grow at 15-20% y-o-y.

Key positives

- Better than expected revenue growth led by both plastic and adhesive divisions.
- High cash position of Rs. 557 crore as on FY2022 end.

Key negatives

- OPM disappointed led by weak margins in both plastics and adhesives.
- Pipes capacity utilization stood at 52% in FY2022.

Management Commentary

- The company saw good demand in April and May (both would be 70-80% higher y-o-y on account of very low base). FY2024 is expected to be a bumper year.
- For a couple of quarters, the cash outflow would be for paints acquisition (Rs. 200 crores), working capital requirement for faucets & sanitaryware, some Capex for East, maintenance capex and Telangana facility.
- The company is undertaking marketing initiatives for increasing penetration in rural markets. It expects at least 20% of sales can be done from the rural piping business.

Revision in estimates – We have lowered our estimates for FY2023-FY2024 factoring normalization of margins in plastics and adhesives.

Our Call

Valuation – Retain Buy with a revised price target of Rs. 2,050: Astral is expected to generate strong cash flows with major Capex plans coming to an end in FY2023. Its focus would be on improving capacity utilization in pipes and scaling up new businesses viz. Plastic tanks, Valves, Paints, faucets and sanitaryware. Its core piping business is expected to see healthy volume growth going ahead although OPM may get normalized. Adhesives is likely to grow a steady 15-20% p.a. growth rate while OPM are expected to improve with the easing of chemical prices. The stock is currently trading at a P/E of 50x its FY2024E earnings, we believe that the company's high growth trajectory provides room for an upside. Hence, we retain a Buy with a revised price target of Rs. 2,050 led by a downward revision in estimates.

Key Risks

- Lower demand due to an economic slowdown, a delay in the completion of expansion projects, and heightened competitive intensity might affect revenue growth momentum.
- Higher raw material prices and a delay in the ability to pass on price hikes adequately, adverse forex fluctuations, and interest rate movements might affect margins

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,176	4,394	5,421	6,337
OPM (%)	20.3	17.2	15.5	16.4
Adjusted PAT	404	484	544	692
% Y-o-y growth	*63.1*	*19.6*	*12.4*	*27.2*
Adjusted EPS (Rs.)	20.1	24.1	27.0	34.4
P/E (x)	84.5	70.6	62.9	49.4
P/B (x)	18.0	14.6	11.9	9.7
EV/EBITDA (x)	52.3	44.5	39.8	31.5
RoNW (%)	23.8	22.9	20.9	21.6
RoCE (%)	29.9	29.4	26.9	27.9

Source: Company; Sharekhan estimates

Weak margins leads to lower than expected net earnings

Astral reported consolidated net revenues growth of 23% y-o-y (+26% q-o-q) at Rs. 1391 crore which was 6% higher than our estimate. The revenues from Pipes segment grew by 22% y-o-y (+29% q-o-q) to Rs. 1109 crore. The volumes in Pipes division grew by 11% y-o-y (+34% q-o-q) while realizations rose by 10% y-o-y (-4% q-o-q). The revenues from the adhesive business rose 29% y-o-y (+17% q-o-q) to Rs. 300 crore. The company reported consolidated OPM at 15.6% (-698bps y-o-y, -237bps q-o-q) which was lower than our estimate of 18.5%. Pipe business EBITDA margin stood at 18% (-590bps y-o-y, -219bps q-o-q) while adhesives was at 11% (-676bps y-o-y, -75bps q-o-q). Consolidate operating profit declined by 15% y-o-y (+9.5% q-o-q) at Rs. 217 crore which was 10% lower than our estimate. Weak OPM led to a consolidated net profit decline of 19% y-o-y (+11% q-o-q) at Rs. 141 crore (versus our estimate of Rs. 157 crores).

To improve capacity utilization and scale up new products

The company has started commercial production at its Bhubaneswar (Cuttack) plant. The company is planning to launch a faucets and sanitaryware range of products on June 10, 2022. The management estimates that newly launched products and segments like tanks, drain-pro, ball-valve, sanitaryware and faucets and paint business will be able to generate revenue of Rs. 1,500 crores over the next five years. The company has net cash of Rs. 556.6 crore. Over three years, it expects to generate sizeable cash as major Capex plans would end by FY23. It would focus on increasing utilisation levels. The company had operated at 52% capacity utilization in Pipes during FY2022 which it expects to increase to 75% over 2-3 years.

Key Conference Call Takeaways

- **Guidance:** The pipes division is expected at two digit volume growth. The adhesive is expected to continue to grow at 15-20% per annum. Paints is expected to grow to Rs. 600-700 crore over three years. Faucets is expected to grow to Rs. 500 crore over 2-3 years. The company saw good demand in April and May (both would be 70-80% higher y-o-y on account of a very low base). FY2024 is expected to be a bumper year. The company expects high probability to come back to 75% capacity utilisation over 2-3 years.
- **Expansions:** The odisha plant has started tank manufacturing. It would start pipe manufacturing over 4 to 6 months. The company acquired land in Telangana for tank manufacturing. Post tanks, it would start manufacturing pipes there. It is planning to expand the Uttarakhand plant capacity. At Dahej, Gujarat, next year, it would be shifting some chemistries in adhesives which would lead to substantial savings in raw materials.
- **Faucets & Sanitaryware:** It would launch faucets & sanitaryware with a complete range on June 10, 2022 at Goa. The manufacturing is outsourced with most tie-ups being exclusive. It would have an in-house designing and testing facility. The company's 70% of dealers are in faucets & sanitaryware. First, it would sell in the west and over 6-8 months, it would be sold pan-India.
- **Paints:** The Gem paints, in which it has a 51% stake has a strong presence in the South. It would be paying Rs. 200 crores for 51% stake this week. South revenues comprised Rs. 260 crores in FY22. The plant has the capacity to manufacture four to five times without major CAPEX. It would not be incurring any Capex for paints over 3-4 years. The business is expected to grow at a steady pace of 15-20% per annum. Gem paints is a zero debt company with a ten-year track record of double-digit margins. The balance sheet size of Gem paints is Rs. 340-350 crores, gross block of Rs. 40-45 crores, debtor days of 55 days, inventory days of 30-40 days and PAT margin of ~10%. The paint business would be consolidated from Q1FY23. The paint business has synergy with adhesives.
- **Pipe industry growth:** During FY21, the industry de-grew by 16-17% y-o-y while the company's growth was 4%. During FY22, the industry grew by 1-2% while company grew by 4%. Hence, the company has been gaining market share. Excluding Rex (infra focused pipes), the existing pipes business is still growing at 15% y-o-y. The plastic pipe growth is 1.5x GDP.
- **Capex:** The company had incurred capex of Rs. 1000 crore over last five years.

- **Cash:** The company has net cash of Rs. 556.6 crore. Over three years, it expects to generate sizeable cash as major capex plans would end by FY23. It would focus on increasing utilisation levels. For a couple of quarters, the cash outflow would be for paints acquisition (Rs. 200 crores), the working capital requirement for faucets & sanitaryware, some capex for East, maintenance capex (Rs. 30-40 crores) and the Telangana facility (land acquired for Rs. 25 crores, capex of Rs. 25-30 crore more to be incurred). The company may give dividends or go for buyback due to high cash levels.
- **Q4FY22 highlights:** The infra pipes business had come down leading to lower volumes. Q4 had inventory loss leading to lower OPM. The normal OPM for pipes is 16-18%. Adhesives OPM was affected by a steep rise in chemical prices. The pass-through of increased costs in adhesives is happening with a lag.
- **FY22 highlights:** Its capacity utilisation stood at 52% last year. The net working capital days reduced to 12 days from 18 days in FY21.
- **DrainPro:** The company has launched DrainPro pipes two months back which is now doing monthly sales of Rs. 1.5 crore to Rs. 2 crore. The DrainPro pipes are 5-7% costlier than normal drainage pipes.
- **Tanks:** Plastic tanks did Rs. 45 crore revenues in the first year. For FY23, it is expected to clock Rs. 100 crore revenues. Currently, it is doing monthly sales of Rs. 8 crores to Rs. 10 crore. It is targeting a 5% market share from 0.86% now.
- **Branding:** The company had tied up with Allu Arjun for branding its products in the South for five states.
- **Rural focus:** The company is undertaking marketing initiatives for increasing penetration in rural markets (population below two lakhs). It expects at least 20% of sales can be done from the rural piping business.

Results (Consolidated) Rs cr

Particulars	Q4FY2022	Q4FY2021	Y-o-Y %	Q3FY2022	Q-o-Q %
Revenue	**1,391**	**1,128**	**23.3**	**1,103**	**26.1**
EBITDA	**217**	**255**	**(14.8)**	**198**	**9.5**
Other Income	16	5	228.0	6	164.5
Depreciation	33	29	12.3	32	2.2
Finance Cost	5	1	333.3	2	160.0
PBT	**193**	**229**	**(15.5)**	**170**	**13.9**
Tax Expenses	49	53	(6.6)	42	17.7
PAT	141	175	(19.0)	127	11.1
Adj PAT	**141**	**175**	**(19.0)**	**127**	**11.1**
REPS (Rs)	**7.0**	**8.7**	**(19.0)**	**6.3**	**11.1**
Margin			**BPS**		**BPS**
EBITDA Margin	15.6	22.6	(698)	18.0	(237)
PAT Margin	10.2	15.5	(531)	11.5	(138)
Tax rate	25.5	23.0	242	24.6	82

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, which had affected its peak sales period of the year. 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 utilization levels. 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.

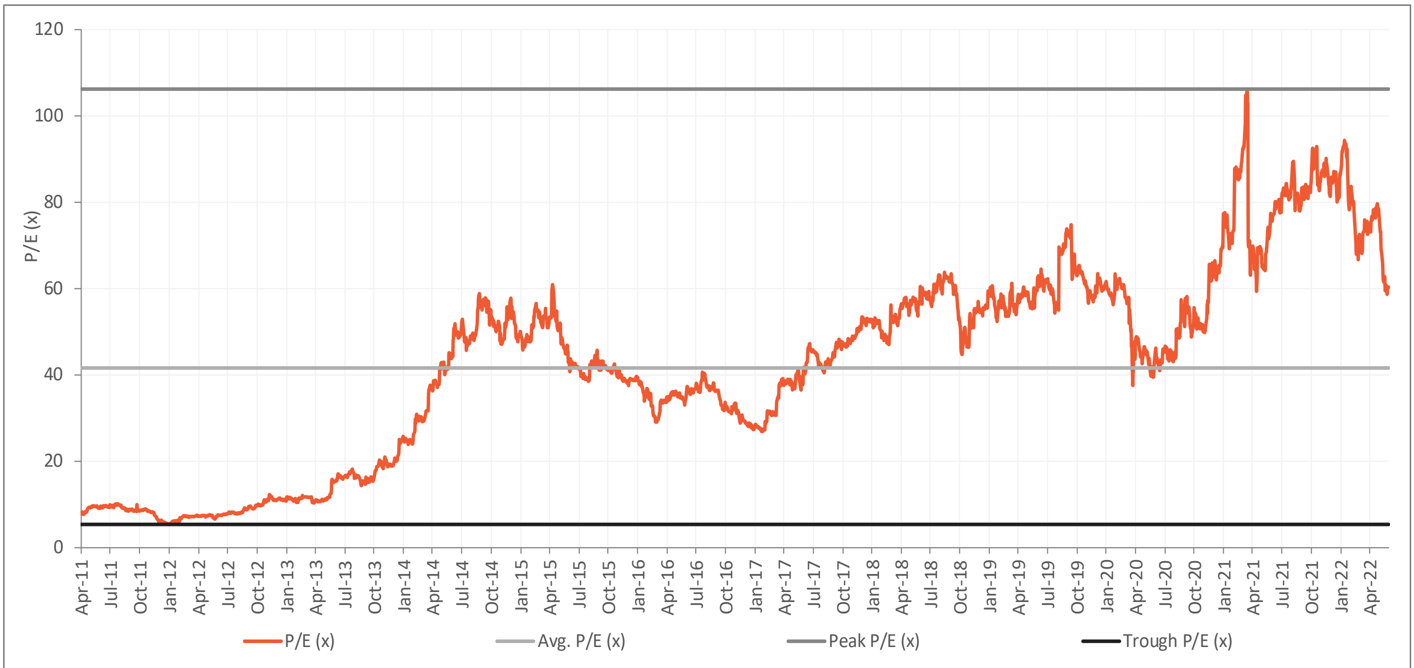
■ Company Outlook – Expect healthy growth in both Pipes and adhesives

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 utilization 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 normalized environment. Both pipes and adhesives businesses are expected to fare well over the long term with pipes volumes expected to grow at 15% per annum, while adhesive is expected to grow at 15-20% per annum. Further, the company would be scaling up its new products.

■ Valuation – Retain Buy with a revised price target of Rs. 2050

Astral is expected to generate strong cash flows with major capex plans coming to an end in FY2023. Its focus would be on improving capacity utilization in pipes and scaling up new businesses viz. Plastic tanks, Valves, Paints, faucets and sanitaryware. Its core piping business is expected to see healthy volume growth going ahead although OPM may get normalized. Adhesives is likely to grow at steady 15-20% p.a. growth rate while OPM is expected to improve with the easing of chemical prices. The stock is currently trading at a P/E of 50x its FY2024E earnings, we believe that the company's high growth trajectory provides room for an upside. Hence, we retain a Buy with a revised price target of Rs. 2,050 led by a downward revision in estimates.

One-year forward P/E (x) band



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, US, and Kenya, having over 4,000 employees. The company has over 800 and 1,800 distributors in the plastic and adhesive segments, respectively. 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 normalized environment. Both pipes and adhesives businesses of the company are expected to fare well over the long term with pipes volumes expected to grow at 15% per annum while adhesives expected to grow at 20-25% per annum. Further, the company would be scaling up its tank business complementing its pipe business.

Key Risks

- Lower demand offtake due to the economic slowdown and delay in completion of expansion projects coupled with increased competitive intensity might affect revenue growth momentum.
- Higher raw-material prices and delay in the ability to pass on price hikes adequately, adverse forex fluctuations, and interest rate movement might affect margins.

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 Sandip Pravinbhai	31.39
2	Saumya Polymers	9.85
3	Steadview Capital Mauritius Ltd	7.90
4	Engineer Jagruti Sandeep	7.59
5	Kairav Chemicals Pvt Ltd	6.90
6	Axis Asset Management Co Ltd	3.89
7	UTI Asset Management Co Ltd	2.54
8	Tree Line Asia Master Fund	2.24
9	ICICI Prudential Life Insurance Co Ltd	1.11
10	Parikh Vijay Suresh	0.91

Source: Bloomberg

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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