

SELL

TP: Rs 1,400 | ▼ 35%

ASTRAL

| Plastic Products

| 09 August 2021

Pipe volumes muted; valuations rich

- Consolidated Q1 revenue grew 73% YoY with pipes/adhesives rising 63%/107% due to a low base; pipe volumes grew just 13%
- Operating margin increased 500bps YoY to 18.5% with improvement across segments
- We raise FY22/FY23 PAT by 5% each and roll over to a new Jun'22 TP of Rs 1,400 (vs. Rs 1,210). Maintain SELL on rich valuations

Arun Baid

researchreport@bobcaps.in

Favourable base fuels strong revenue growth: ASTRA's consolidated Q1FY22 revenue grew 73% YoY to Rs 7bn off a soft base on account of the lockdown last year. Standalone revenue in PVC pipes increased 63% YoY (volumes up 13%) and the adhesives business grew 107% YoY as benefits from a change in distribution model kicked in. Per management, resurgence of the pandemic affected demand during the quarter.

Demand climate improving: The company indicated that demand has revived in the month of July with adhesive revenue growing 36% and pipes up 65% YoY. Management has guided for at least double-digit pipe volume growth in FY22 and maintained its adhesive segment revenue target of Rs 10bn for the year, assuming the pandemic doesn't worsen. ASTRA plans to launch one more product in Q3FY21, which will be sold via its existing distribution network.

Robust margins: EBITDA margin increased 500bps YoY to 18.5% in Q1 aided by a superior showing in both segments, which fuelled EBITDA/PBT growth of 138%/296% YoY. Pipe segment margins swelled 515bps YoY to 20% (-350bps QoQ) due to lower raw material (-600bps YoY) and employee costs (-180bps YoY), partly negated by higher other expenses (+265bps YoY). Adhesives margin expanded 540bps to 13.8% on operating leverage. Management guided that current margins in pipes may vary in the near term due to volatile PVC prices, but maintained its target of 16-17% levels in the medium term. Adhesives margin is also guided at 16-17%.

Maintain SELL: We increase FY22/FY23 PAT estimates by 5% each and roll forward to a new Jun'22 TP of Rs 1,400 (vs. Rs 1,210), set at a revised one-year forward P/E of 50x (vs. 48x) which is in line with the stock's five-year average. Though we like ASTRA for its strong growth prospects, wide distribution, broad product portfolio, robust balance sheet and impressive return ratios, current valuations look rich at 81.5x FY23E P/E and we thus await a better entry point.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ASTRA IN/Rs 2,150
Market cap	US\$ 5.8bn
Free float	44%
3M ADV	US\$ 8.2mn
52wk high/low	Rs 2,294/Rs 767
Promoter/FPI/DII	56%/21%/24%

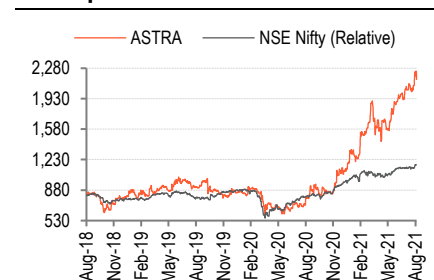
Source: NSE | Price as of 9 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	31,763	39,026	45,073
EBITDA (Rs mn)	6,445	6,816	8,228
Adj. net profit (Rs mn)	4,059	4,282	5,299
Adj. EPS (Rs)	20.2	21.3	26.4
Consensus EPS (Rs)	20.2	23.1	29.3
Adj. ROAE (%)	23.9	21.3	23.5
Adj. P/E (x)	106.4	100.9	81.5
EV/EBITDA (x)	67.2	63.1	52.0
Adj. EPS growth (%)	62.5	5.5	23.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Total revenues	7,001	4,039	73.3	11,278	(37.9)
Total raw material consumed	4,318	2,649	63.0	6,869	(37.1)
% of sales	61.7	65.6	(391bps)	60.9	77bps
Employee exps	581	426	36.4	475	22.3
% of sales	8.3	10.5	(225bps)	4.2	409bps
Other exp	808	421	91.9	1,388	(41.8)
% of sales	11.5	10.4	112bps	12.3	(77bps)
Total expenditure	5707	3496	63.2	8732	(34.6)
% of sales	81.5	86.6	(504bps)	77.4	409bps
EBITDA	1,294	543	138.3	2546	(49.2)
% of sales	18.5	13.4	504bps	22.6	(409bps)
Depreciation	306	285	7.4	292	4.8
Other income	43	39	10.3	50	(14.0)
Interest cost	46	48	(4.2)	11	318.2
PBT	985	249	295.6	2,293	(57.0)
Taxes	234	25	836.0	527	(55.6)
Effective tax rate (%)	23.8	10.0	1,372bps	23.0	77bps
RPAT before extraordinaries	751	224	235.3	1766	(57.5)
Less: forex loss/(gain)	0.0	11.0	(100.0)	1.0	(100.0)
Less: minority int	(12.0)	(4.0)	200.0	(15.0)	(20.0)
Less: Loss from JV	0.0	10.0	(100.0)	4.0	(100.0)
APAT	739	210	251.9	1,747	(57.7)
RPAT	739	199	271.4	1,746	(57.7)

Source: BOBCAPS Research, Company

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales					
Plastics	5,041	3,093	63.0	8,864	(43.1)
Adhesives	1,960	946	107.2	2,414	(18.8)
Total	7,001	4,039	73.3	11,278	(37.9)
EBIT					
Plastics	758	231	228.1	1,802	(57.9)
Adhesives	259	153	69.3	453	(42.8)
Total	1,017	384	164.8	2,255	(54.9)
EBIT Margin (%)					
Plastics	15.0	7.5	757bps	20.3	(529bps)
Adhesives	13.2	16.2	(296bps)	18.8	(555bps)

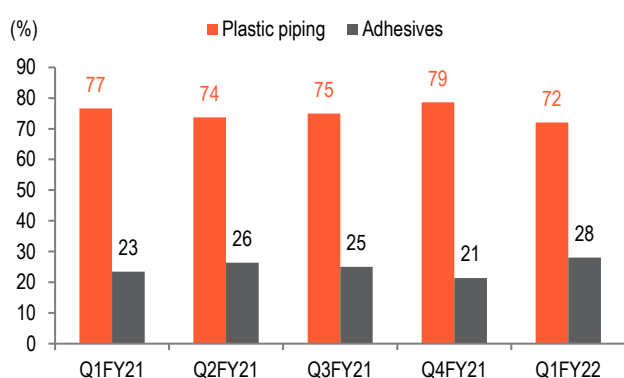
Source: Company, BOBCAPS Research

Fig 3 – Standalone quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Total revenues	5,172	3,165	63.4	9,097	(43.1)
Total raw material consumed	3,194	2,144	49.0	5,559	(42.5)
% of sales	61.8	67.7	(599bps)	61.1	65bps
Employee exps	311	247	25.9	244	27.5
% of sales	6.0	7.8	(179bps)	2.7	333bps
Other exp	633	304	108.2	1,157	(45.3)
% of sales	12.2	9.6	263bps	12.7	(48bps)
Total expenditure	4,138	2,695	53.5	6,960	(40.5)
% of sales	80.0	85.2	(514bps)	76.5	350bps
EBITDA	1,034	470	120.0	2137	(51.6)
% of sales	20.0	14.8	514bps	23.5	(350bps)
Depreciation	253	236	7.2	245	3.3
Other income	35	30	16.7	41	(14.6)
Interest cost	5	36	(86.1)	6	(16.7)
PBT	811	228	255.7	1,927	(57.9)
Taxes	201	55	265.5	471	(57.3)
Effective tax rate (%)	24.8	24.1	66bps	24.4	34bps
APAT	610	173	252.6	1456	(58.1)
extraordinary items	(33)	0	NA	(53)	(37.7)
Forex	0	(8)	(100.0)	0	NA
RPAT	577	165	249.7	1403	(58.9)

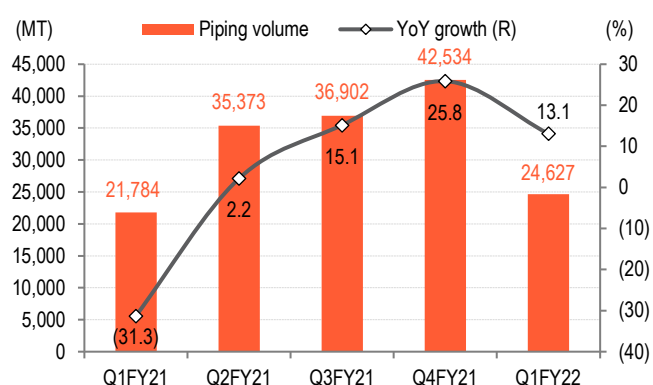
Source: BOBCAPS Research, Company

Fig 4 – Consolidated revenue mix



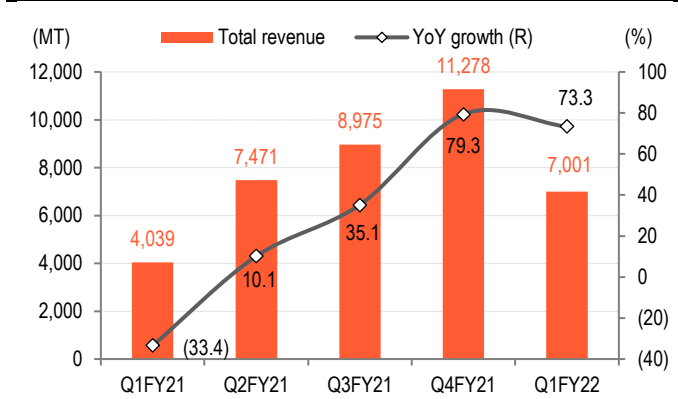
Source: Company, BOBCAPS Research

Fig 5 – Piping volume growth



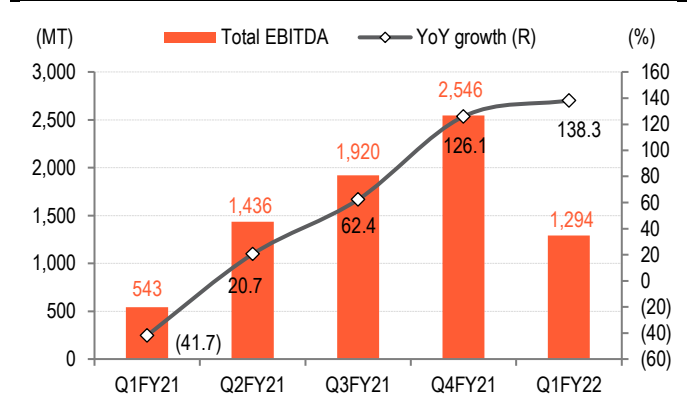
Source: Company, BOBCAPS Research

Fig 6 – Consolidated revenue growth



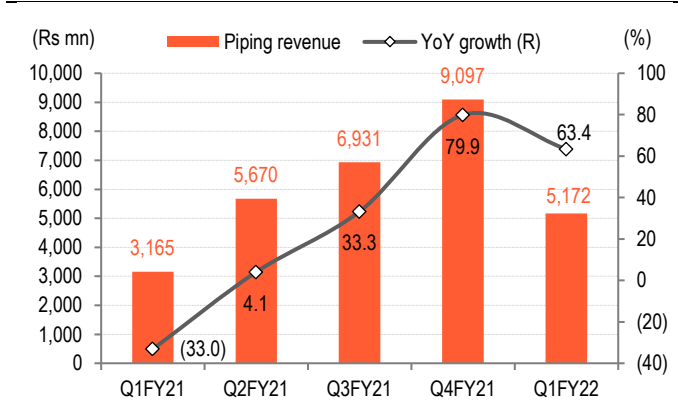
Source: Company, BOBCAPS Research

Fig 7 – Consolidated EBITDA growth



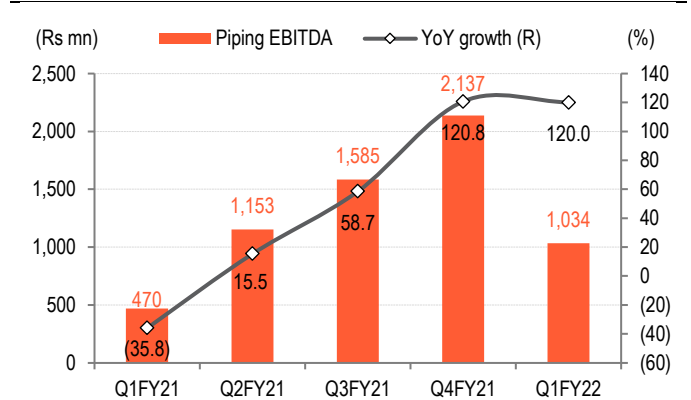
Source: Company, BOBCAPS Research

Fig 8 – Standalone piping revenue growth



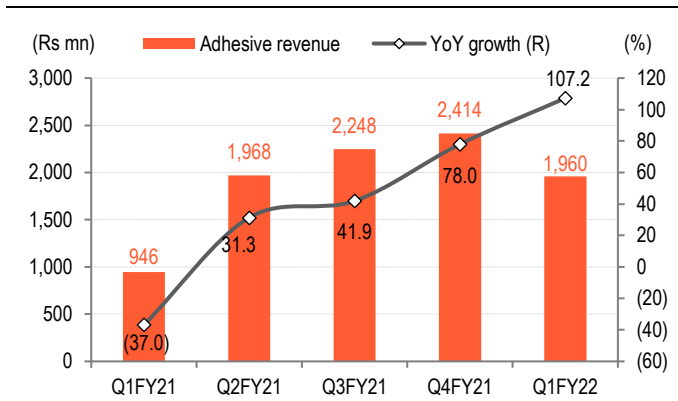
Source: Company, BOBCAPS Research

Fig 9 – Standalone piping EBITDA growth



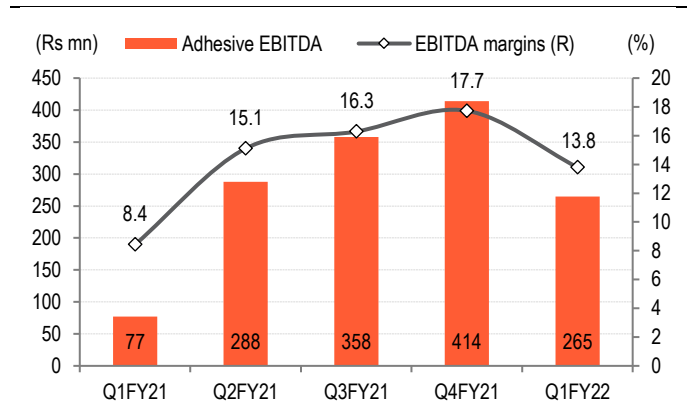
Source: Company, BOBCAPS Research

Fig 10 – Standalone adhesives revenue growth



Source: Company, BOBCAPS Research

Fig 11 – Standalone adhesives EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- Demand during Q1FY22 was affected due to resurgence of the pandemic. However, July sales have been healthy and this trend has continued in early August.
- ASTRA is seeing good demand in most markets, barring a few in South India which still have Covid restrictions.
- Sales of value-added products have increased which is enabling better margins.
- The company plans to launch a new product in Q3FY21
- It will also commercialise four factories for plastic tanks across geographies by the year-end.
- ASTRA is net debt-free and had surplus cash of ~Rs 2.75bn as of 30 June 2021.

Piping segment

- PVC prices corrected by ~15% QoQ in Q1 which hurt margins. Prices have now started to increase and thus further inventory losses are unlikely.
- Management believes pipe volumes can grow in double digits in FY22, with operating margin at 16-17% over the medium term.
- Demand for pipes is increasing from all segments of the market, barring agriculture. Infrastructure demand has started to pick up as well, resulting in growth at Rex Poly in Q1.
- ASTRA took a price hike of 5-7% in CPVC whereas PVC prices declined in Q1, widening the gap between the two.
- Dealer inventory was lean in Q1 due to the falling PVC prices, but this should normalise as prices have started to increase.

Adhesive segment

- Adhesives saw good traction in Q1 and management believes the momentum will continue.
- The company has strengthened its product portfolio in the segment.
- Capacity utilisation for the adhesives business is still at 40-45%, implying ample room for growth.
- The distribution network is different for adhesives and pipes. Retail touch points may, however, be common.

Valuation methodology

ASTRA is among the leading players in India's CPVC/PVC plumbing pipe market. The company has a wide-ranging product portfolio, robust brand name and large distribution reach that will enable it to benefit from gradual formalisation of the market post GST and e-way bill implementation. Its adhesives business further boosts growth prospects.

We increase FY22-FY23 PAT estimates by 5% each and roll forward to a new Jun'22 TP of Rs 1,400 (vs. Rs 1,210), set at a revised one-year forward P/E of 50x (vs. 48x) which is in line with the stock's five-year average. Though we like ASTRA for its strong balance sheet and comprehensive product portfolio, we believe current valuations at 81.5x FY23E P/E are lofty. Maintain SELL.

Fig 12 – Revised estimates

(Rs mn)	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	36,042	42,945	39,026	45,073	8.3	5.0
EBIDTA	6,463	7,814	6,816	8,228	5.5	5.3
PAT	4,064	5,052	4,282	5,299	5.4	4.9

Source: BOBCAPS Research

Fig 13 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Pipe Volumes (MT)	1,36,593	1,63,912	1,88,498	2,16,773
Growth (%)	3.3	20.0	15.0	15.0
Pipe EBIDTA (Rs/kg)	39.1	32.5	33.1	33.8
Growth (%)	39.9	(17.0)	2.0	2.0
Adhesives Revenues (Rs mn)	7,345	9,190	11,448	14,333
Growth (%)	26.0	25.1	24.6	25.2
Adhesive operating margins (%)	15.5	16.2	17.3	17.5

Source: Company, BOBCAPS Research

Fig 14 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	995	19.5	24.2	29.8	20.1	23.4	32
Somany Ceramics	SOMC IN	BUY	820	17.5	22.8	33.9	13.8	17.6	22
Greenply Industries	MTLM IN	HOLD	210	18.0	8.9	10.5	22.4	21.5	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4375	16.1	115.4	138.1	16.2	17.1	30
Astral Ltd	ASTRA IN	SELL	1400	19.1	21.3	26.4	26.0	29.4	50
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- above-expected growth in the housing market, and
- lower raw material prices, leading to better profitability.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	25,779	31,763	39,026	45,073	52,615
EBITDA	4,441	6,445	6,816	8,228	9,837
Depreciation	(1,079)	(1,165)	(1,293)	(1,419)	(1,527)
EBIT	3,362	5,280	5,523	6,809	8,310
Net interest inc./(exp.)	(394)	(116)	(108)	(38)	(19)
Other inc./(exp.)	115	251	286	307	450
Exceptional items	0	0	0	0	0
EBT	3,083	5,415	5,700	7,078	8,742
Income taxes	(568)	(1,248)	(1,368)	(1,699)	(2,098)
Extraordinary items	(19)	(15)	0	0	0
Min. int./Inc. from assoc.	(17)	(108)	(50)	(80)	(80)
Reported net profit	2,479	4,044	4,282	5,299	6,564
Adjustments	19	15	0	0	0
Adjusted net profit	2,498	4,059	4,282	5,299	6,564

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	4,754	5,172	6,201	7,162	8,361
Other current liabilities	563	1,250	962	1,111	1,297
Provisions	92	69	117	135	158
Debt funds	1,856	666	200	100	50
Other liabilities	0	0	0	0	0
Equity capital	151	201	201	201	201
Reserves & surplus	14,878	18,757	20,967	23,701	26,691
Shareholders' fund	15,029	18,958	21,168	23,902	26,892
Total liab. and equities	22,462	26,327	28,910	32,753	37,180
Cash and cash eq.	1,301	4,760	4,380	6,435	8,760
Accounts receivables	2,278	2,767	3,528	4,075	4,757
Inventories	5,404	4,721	6,415	7,409	8,649
Other current assets	913	769	1,069	1,235	1,442
Investments	2	0	0	0	0
Net fixed assets	12,194	12,850	13,057	13,139	13,112
CWIP	444	566	566	566	566
Intangible assets	355	295	295	295	295
Deferred tax assets, net	(429)	(401)	(401)	(401)	(401)
Other assets	0	0	0	0	0
Total assets	22,462	26,327	28,910	32,753	37,180

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	4,133	6,745	3,717	6,177	7,388
Capital expenditures	(2,085)	(1,717)	(1,500)	(1,500)	(1,500)
Change in investments	(1)	2	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,085)	(1,715)	(1,500)	(1,500)	(1,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(897)	(1,190)	(466)	(100)	(50)
Interest expenses	(394)	(116)	(108)	(38)	(19)
Dividends paid	(240)	(151)	(2,073)	(2,565)	(3,574)
Other financing cash flows	(198)	(114)	50	80	80
Cash flow from financing	(1,729)	(1,571)	(2,597)	(2,622)	(3,563)
Chg in cash & cash eq.	320	3,459	(380)	2,055	2,325
Closing cash & cash eq.	1,301	4,760	4,380	6,435	8,760

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	12.3	20.1	21.3	26.4	32.7
Adjusted EPS	12.4	20.2	21.3	26.4	32.7
Dividend per share	1.0	1.0	8.5	10.6	14.7
Book value per share	74.8	94.4	105.4	119.0	133.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	16.8	13.6	11.0	9.5	8.1
EV/EBITDA	97.6	67.2	63.1	52.0	43.4
Adjusted P/E	172.9	106.4	100.9	81.5	65.8
P/BV	28.7	22.8	20.4	18.1	16.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	81.0	75.0	75.1	74.9	75.1
Interest burden (PBT/EBIT)	91.7	102.6	103.2	104.0	105.2
EBIT margin (EBIT/Revenue)	13.0	16.6	14.2	15.1	15.8
Asset turnover (Rev./Avg TA)	120.1	130.2	141.3	146.2	150.5
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	18.0	23.9	21.3	23.5	25.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	2.8	23.2	22.9	15.5	16.7
EBITDA	15.3	45.1	5.8	20.7	19.6
Adjusted EPS	25.4	62.5	5.5	23.7	23.9
Profitability & Return ratios (%)					
EBITDA margin	17.2	20.3	17.5	18.3	18.7
EBIT margin	13.0	16.6	14.2	15.1	15.8
Adjusted profit margin	9.7	12.8	11.0	11.8	12.5
Adjusted ROAE	18.0	23.9	21.3	23.5	25.8
ROCE	16.8	22.0	20.2	22.5	24.4
Working capital days (days)					
Receivables	40	29	29	31	31
Inventory	107	94	80	87	87
Payables	74	72	64	66	66
Ratios (x)					
Gross asset turnover	1.8	2.0	2.2	2.3	2.5
Current ratio	1.6	1.9	2.1	2.3	2.4
Net interest coverage ratio	8.5	45.5	51.0	181.6	443.2
Adjusted debt/equity	0.0	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

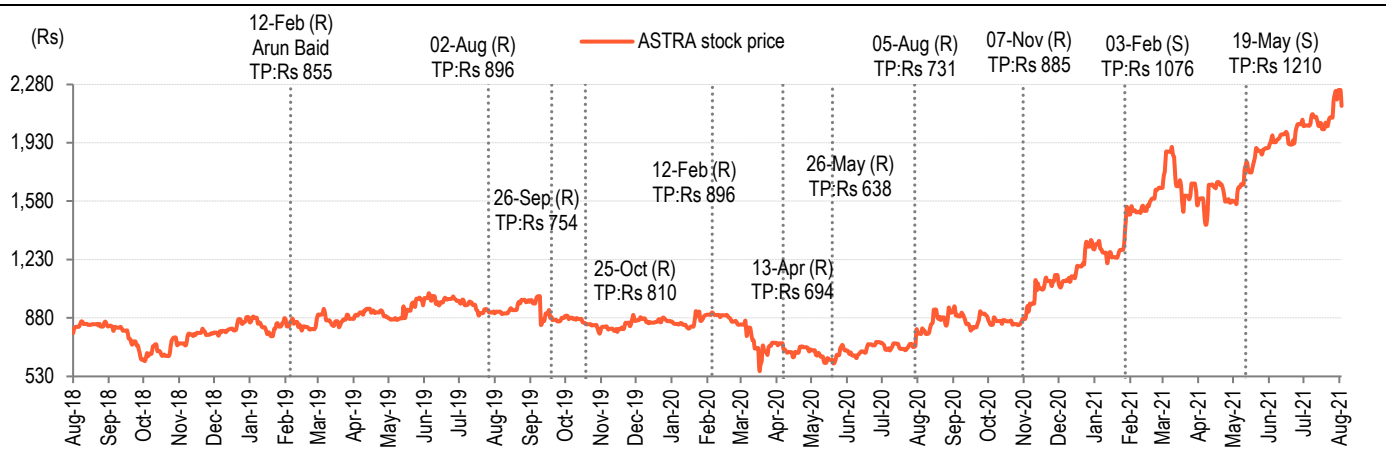
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ASTRAL (ASTRA IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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