

HOLD

TP: Rs 2,205 | ▲ 11%

ASTRAL

| Plastic Products

| 12 August 2022

Good performance amid challenges; cut to HOLD post rally

- Consolidated Q1 revenue grew 73% YoY with plumbing/paints & adhesives up 74%/72%; pipe volumes increased 49%
- Operating margin declined 435bps YoY to 14.2% due to inventory loss of Rs 250mn, high employee cost and expenses toward new products
- Retain TP of Rs 2,205, valuing ASTRA at 62x FY24E P/E, but downgrade from BUY to HOLD given the 30% stock rally in the last 2.5 months

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Strong topline: ASTRA's consolidated Q1FY23 revenue grew 73% YoY to Rs 12.1bn, with the plumbing/paints & adhesives segments up 74%/72% on a low base. Standalone revenue increased 74% YoY on better PVC pipe realisations (Rs 246/kg vs. Rs 210/kg YoY due to the addition of water tanks & valves) and a 49% jump in volumes. Profit was under pressure due to a forex loss of Rs 117mn and a Rs 70mn amortisation charge on consolidation of the Gem Paints business.

Margin contracts due to one-offs: Consolidated EBITDA margin contracted 435bps YoY to 14.2% due to one-offs from high-cost inventory (loss of ~Rs 250mn), elevated A&P spends, high employee cost (Rs 50mn) for the new product division, and expenses toward launch events in the faucetware and sanitaryware segments. EBITDA margin in plumbing fell 525bps YoY to 14.7% owing to higher raw material cost (+765bps). The paints & adhesives segment maintained its EBITDA margin of 13.8% aided by the Gem Paints business (unlike in Q1FY22).

Better placed than peers: ASTRA's volumes posted a 3Y CAGR of 3.8% in Q1 vs. declines of 7.2% and 2.3% for peers FNXF and SI respectively. Per management, PVC price volatility has hurt volumes with prices plunging from as high as Rs 162/kg in Oct'21 to ~Rs 90/kg currently. ASTRA expects PVC prices to stabilise which together with increasing construction activity would aid volumes going forward.

EBITDA/kg to decline further in Q2: ASTRA incurred an inventory loss of ~Rs 250mn in Q1 due to the falling PVC prices. This pulled down EBITDA/kg to Rs 36.2 vs. Rs 42 in Q1FY22 and Rs 39.5 in Q4FY22. PVC prices are under pressure (currently ~Rs 90/kg from Rs 119/kg in Q1) and channel partners are maintaining a lean inventory, which will put pressure on Q2 margins.

Limited upside; cut to HOLD: We like ASTRA for its strong growth prospects, market leadership, net debt-free balance sheet, wide distribution and healthy return ratios. However, the stock has rallied 30% since Jun'22 and offers limited upside at current valuations of 56x FY24E P/E. We downgrade from BUY to HOLD with an unchanged TP of Rs 2,205, set at 62x FY24E EPS (vs. its 5Y median of ~71x).

Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	ASTRA IN/Rs 1,986
Market cap	US\$ 5.0bn
Free float	44%
3M ADV	US\$ 6.3mn
52wk high/low	Rs 2,525/Rs 1,582
Promoter/FPI/DII	56%/16%/28%

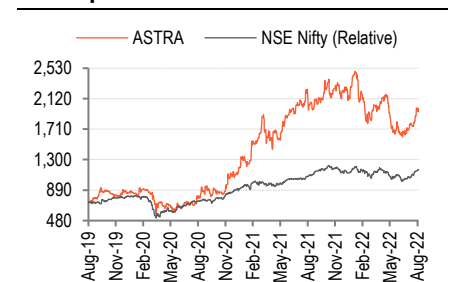
Source: NSE | Price as of 12 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	43,940	52,095	59,596
EBITDA (Rs mn)	7,553	9,159	10,781
Adj. net profit (Rs mn)	4,906	5,839	7,141
Adj. EPS (Rs)	24.4	29.1	35.5
Consensus EPS (Rs)	24.4	30.7	38.2
Adj. ROAE (%)	23.2	22.5	22.7
Adj. P/E (x)	81.3	68.3	55.9
EV/EBITDA (x)	52.6	43.0	36.3
Adj. EPS growth (%)	20.9	19.0	22.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- Management maintained guidance of doubling the consolidated topline in the next five years.
- In Jul'22, ASTRA purchased ready-to-use faucet manufacturing assets for Rs 220mn at Jamnagar (Gujarat). This will enable the company to facilitated timely production and will ease product availability across the country.
- EBITDA/kg in the pipes business has improved from pre-Covid levels of Rs 28/kg in FY20 to Rs ~43 in FY22 and Rs 36.2 in Q1FY23 (lower due to inventory loss). The improvement can be attributed to decentralisation of plants, product mix improvement towards CPVC, and higher contribution of value-added products.
- Gem Paints' sales in Q1FY23 grew 91% YoY to Rs 553mn (~Rs 500mn in Q4FY22). EBITDA margin was 15% in Q1FY23 vs. ~14.5% in Q4FY22. Currently, under the definitive agreement, Gem Paints' operating business is proposed to be demerged to a subsidiary, wherein the holding company will acquire 51% controlling stake. At present, the filing of regulatory approvals is underway. ASTRA plans to make Gem Paints' products available in many states going forward.
- Sales of ASTRA's Resinova and Seal IT products grew 45% YoY Rs 2.8bn in Q1FY23.
- CPVC prices are currently stable due to anti-dumping duty but supply is constrained.
- Capex for FY23 will be as follows: Rs 2bn for a paint facility, working capital for the sanitaryware launch, ~Rs 1.15bn for eastern plant capex, Rs 250mn for land in Telangana, and Rs 250mn-300mn for a water tank unit, plus regular outlay of ~Rs 400mn.
- Consolidated cash (including cash equivalents) and bank balances as at 30 Jun 2022 stood at Rs 3.5bn.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	12,129	7,001	73.2	13,906	(12.8)	43,940	31,763	38.3
Total raw material consumed	8,351	4,318	93.4	9,531	(12.4)	29,280	19,689	48.7
% of sales	68.9	61.7	717bps	68.5	31bps	66.6	62.0	465bps
Employee exps	768	581	32.2	641	19.8	2,453	1,910	28.4
% of sales	6.3	8.3	(197bps)	4.6	172bps	5.6	6.0	(43bps)
Other exp	1,293	808	60.0	1,566	(17.4)	4,654	3,719	25.1
% of sales	10.7	11.5	(88bps)	11.3	(60bps)	10.6	11.7	(112bps)
Total expenditure	10,412.0	5,707.0	82.4	11,738.0	(11.3)	36,387.0	25,318.0	43.7
% of sales	85.8	81.5	433bps	84.4	143bps	82.8	79.7	310bps
EBITDA	1,717.0	1,294.0	32.7	2,168.0	(20.8)	7,553.0	6,445.0	17.2
EBITDA Margin (%)	14.2	18.5	(433bps)	15.6	(143bps)	17.2	20.3	(310bps)
Depreciation	433.0	306.0	41.5	328.0	32.0	1,269.0	1,165.0	8.9
Other income	114.0	43.0	165.1	164.0	(30.5)	349.0	251.0	39.0
Interest cost	27.0	13.0	107.7	16.0	68.8	61.0	116.0	(47.4)
PBT	1,371.0	1,018.0	34.7	1,988.0	(31.0)	6,572.0	5,415.0	21.4
Taxes	316.0	234.0	35.0	492.0	(35.8)	1,581.0	1,248.0	26.7
Effective tax rate (%)	23.0	23.0	6bps	24.7	(170bps)	24.1	23.0	101bps
RPAT before extraordinaries	1,055.0	784.0	34.6	1,496.0	(29.5)	4,991.0	4,167.0	19.8
Less: forex loss/(gain)	117.0	33.0	254.5	36.0	225.0	68.0	15.0	353.3
Less: minority int	(49.0)	(12.0)	308.3	(27.0)	81.5	(66.0)	(38.0)	73.7
Less: Loss from JV	0.0	0.0	n.m.	19.0	n.m.	19.0	70.0	(72.9)
APAT	1,006.0	772.0	30.3	1,450.0	(30.6)	4,906.0	4,059.0	20.9
RPAT	889.0	739.0	20.3	1,414.0	(37.1)	4,838.0	4,044.0	19.6

Source: BOBCAPS Research, Company

Fig 2 – Segmental performance

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales								
Plumbing	8,761	5,041	73.8	10,841	(19)	33,658	24,187	39.2
Paints & Adhesives	3,368	1,960	71.8	3,065	10	10,282	7,576	35.7
Total	12,129	7,001	73.2	13,906	(13)	43,940	31,763	38.3
EBIT								
Plumbing	977	758	28.9	1,623	(40)	5,200	4,194	24.0
Paints & Adhesives	316	153	106.5	327	(3)	1,254	1,145	9.5
Total	1,293	911	41.9	1,950	(34)	6,454	5,339	20.9
EBIT Margin (%)								
Plumbing	11.2	15.0	(389bps)	15.0	(382bps)	15.4	17.3	(189bps)
Paints & Adhesives	9.4	7.8	158bps	10.7	(129bps)	12.2	15.1	(292bps)

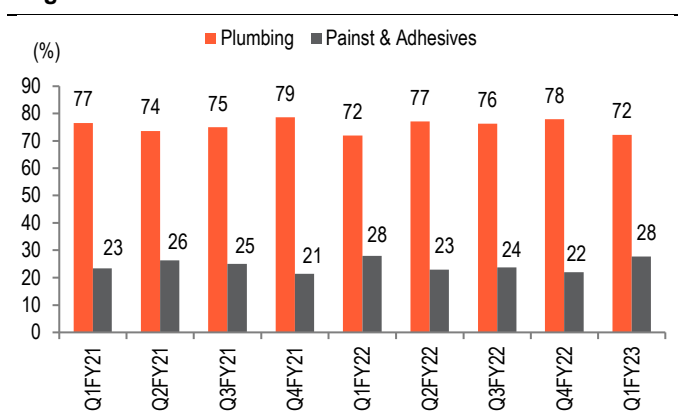
Source: Company, BOBCAPS Research

Fig 3 – Standalone quarterly performance

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	8,998	5,178	73.8	11,094	(18.9)	34,433	24,863	38.5
Total raw material consumed	6,250	3,200	95.3	7,691	(18.7)	23,140	15,546	48.8
% of sales	69.5	61.8	766bps	69.3	13bps	67.2	62.5	468bps
Employee exps	390	311	25.4	338	15.4	1,303	1,043	24.9
% of sales	4.3	6.0	(167bps)	3.0	129bps	3.8	4.2	(41bps)
Other exp	1,034	633	63.3	1,200	(13.8)	3,640	2,929	24.3
% of sales	11.5	12.2	(73bps)	10.8	67bps	10.6	11.8	(121bps)
Total expenditure	7,674.0	4,144.0	85.2	9,229.0	(16.8)	28,083.0	19,518.0	43.9
% of sales	85.3	80.0	525bps	83.2	210bps	81.6	78.5	306bps
EBITDA	1324.0	1034.0	28.0	1865.0	(29.0)	6350.0	5345.0	18.8
EBITDA Margin (%)	14.7	20.0	(525bps)	16.8	(210bps)	18.4	21.5	(306bps)
Depreciation	297.0	253.0	17.4	273.0	8.8	1,050.0	962.0	9.1
Other income	62.0	35.0	77.1	137.0	(54.7)	274.0	207.0	32.4
Interest cost	10.0	5.0	100.0	5.0	100.0	22.0	76.0	(71.1)
PBT	1,079.0	811.0	33.0	1,724.0	(37.4)	5,552.0	4,514.0	23.0
Taxes	242.0	201.0	20.4	462.0	(47.6)	1,418.0	1,122.0	26.4
Effective tax rate (%)	22.4	24.8	(236bps)	26.8	(437bps)	25.5	24.9	68bps
APAT	837.0	610.0	37.2	1,262.0	(33.7)	4,134.0	3,392.0	21.9
extraordinary items	0.0	0.0	n.m.	(19.0)	(100.0)	(19.0)	(123.0)	(84.6)
Forex	(107.0)	(33.0)	224.2	(36.0)	197.2	(67.0)	0.0	n.m.
RPAT	730.0	577.0	26.5	1,207.0	(39.5)	4,048.0	3,269.0	23.8

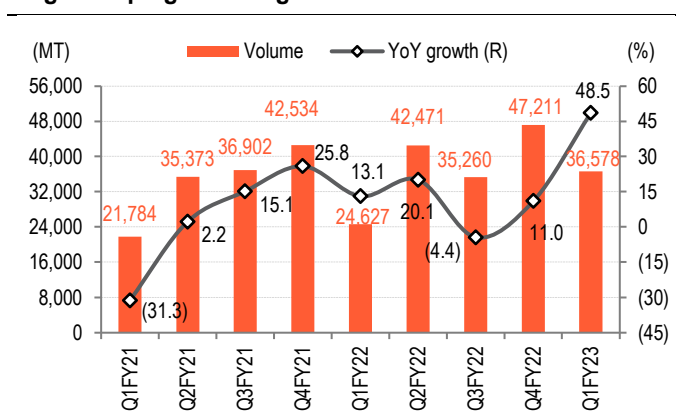
Source: BOBCAPS Research, Company

Fig 4 – Consolidated revenue mix



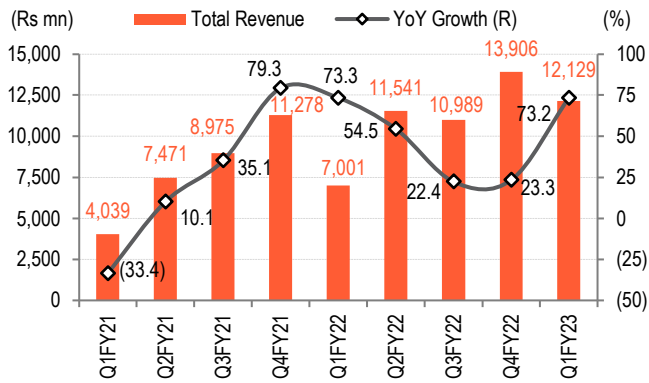
Source: Company, BOBCAPS Research

Fig 5 – Piping volume growth



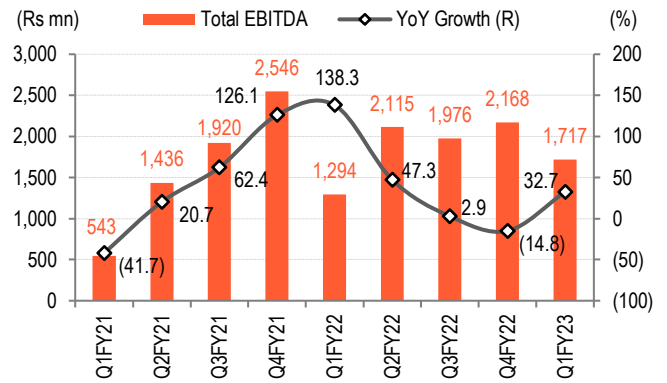
Source: Company, BOBCAPS Research

Fig 6 – Consolidated revenue growth



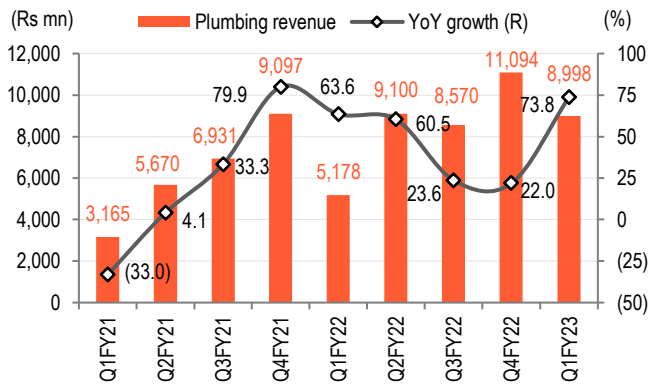
Source: Company, BOBCAPS Research

Fig 7 – Consolidated EBITDA growth



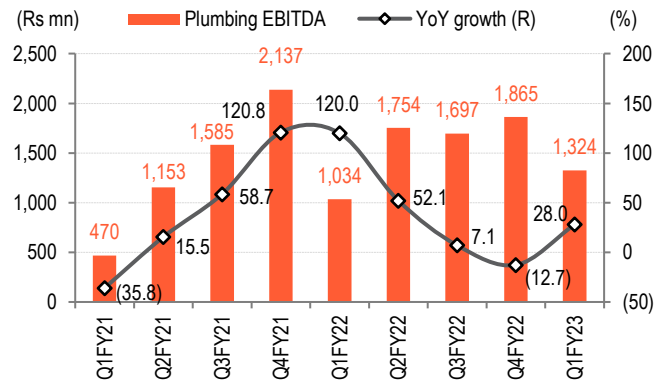
Source: Company, BOBCAPS Research

Fig 8 – Standalone plumbing revenue growth



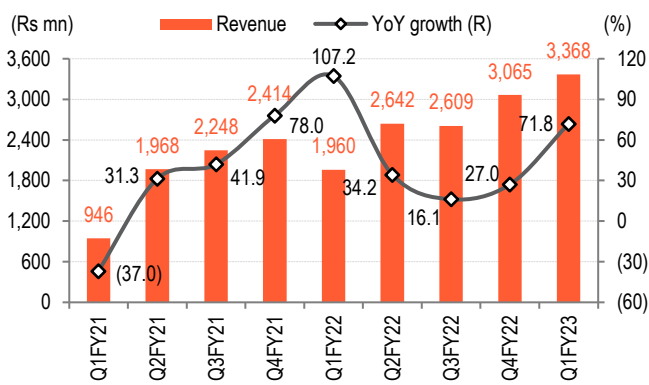
Source: Company, BOBCAPS Research

Fig 9 – Standalone plumbing EBITDA growth



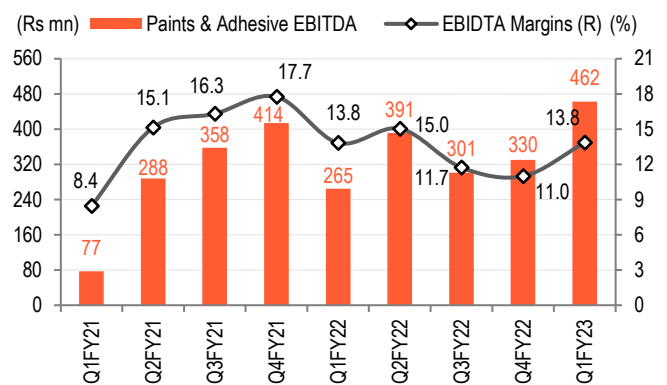
Source: Company, BOBCAPS Research

Fig 10 – Standalone paints & adhesives revenue growth



Source: Company, BOBCAPS Research

Fig 11 – Standalone paints & adhesives EBITDA margin



Source: Company, BOBCAPS Research

Valuation methodology

ASTRA is among the leading players in India's CPVC/PVC plumbing pipe market. We expect strong growth traction in the pipe business led by likely industry consolidation, further expansion in the valve segment, new launches (water storage tanks in particular – a Rs 50bn market, ~70% unorganised), and margin improvement on a richer product mix. The housing demand pickup and government spend on infrastructure and agriculture would also bolster sales. The company is extending its reach into eastern markets by setting up a plant in Odisha, which will aid growth.

Overall, we like ASTRA for its strong growth prospects, market leadership, net debt-free balance sheet, wide distribution network and healthy return ratios. However, the stock has rallied 30% since Jun'22 and offers limited upside at current valuations of 56x FY24E P/E. We thus downgrade our rating from BUY to HOLD with an unchanged TP of Rs 2,205, set at 62x FY24E EPS (vs. its five-year median of ~71x).

Key risks

Key downside risks to our estimates are:

- below-expected growth in the housing market,
- higher raw material prices, and
- failure of new products and categories.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Astral	ASTRA IN	5.0	1,986	2,205	HOLD
Finolex Industries	FNXP IN	1.1	143	140	HOLD
Supreme Industries	SI IN	3.0	1,894	2,055	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 Aug 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	25,779	31,763	43,940	52,095	59,596
EBITDA	4,441	6,445	7,553	9,159	10,781
Depreciation	(1,079)	(1,165)	(1,269)	(1,490)	(1,560)
EBIT	3,362	5,280	6,284	7,669	9,221
Net interest inc./(exp.)	(394)	(116)	(61)	(188)	(138)
Other inc./(exp.)	115	251	349	307	418
Exceptional items	0	0	0	0	0
EBT	3,083	5,415	6,572	7,788	9,502
Income taxes	(568)	(1,248)	(1,581)	(1,869)	(2,280)
Extraordinary items	(19)	(15)	(68)	0	0
Min. int./Inc. from assoc.	(17)	(108)	(85)	(80)	(80)
Reported net profit	2,479	4,044	4,838	5,839	7,141
Adjustments	19	15	68	0	0
Adjusted net profit	2,498	4,059	4,906	5,839	7,141

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	4,754	5,172	7,484	7,564	8,654
Other current liabilities	563	1,250	1,457	1,570	1,796
Provisions	92	69	35	156	179
Debt funds	1,856	666	851	651	451
Other liabilities	0	0	0	0	0
Equity capital	151	201	201	201	201
Reserves & surplus	14,878	18,757	23,165	28,297	34,142
Shareholders' fund	15,029	18,958	23,366	28,498	34,343
Total liab. and equities	22,462	26,327	33,471	38,798	45,861
Cash and cash eq.	1,301	4,760	6,418	11,291	17,729
Accounts receivables	2,278	2,767	2,691	3,283	3,755
Inventories	5,404	4,721	7,334	7,136	8,164
Other current assets	913	769	1,234	1,285	1,469
Investments	2	0	0	0	0
Net fixed assets	12,194	12,850	14,665	14,675	13,614
CWIP	444	566	1,232	1,232	1,232
Intangible assets	355	295	295	295	295
Deferred tax assets, net	(429)	(401)	(398)	(398)	(398)
Other assets	0	0	0	0	0
Total assets	22,462	26,327	33,471	38,798	45,861

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	4,133	6,745	5,651	7,387	8,492
Capital expenditures	(2,085)	(1,717)	(3,750)	(1,500)	(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)	(3,750)	(1,500)	(500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(897)	(1,190)	185	(200)	(200)
Interest expenses	(394)	(116)	(61)	(188)	(138)
Dividends paid	(240)	(151)	(517)	(706)	(1,296)
Other financing cash flows	(198)	(114)	66	80	80
Cash flow from financing	(1,729)	(1,571)	(327)	(1,014)	(1,554)
Chg in cash & cash eq.	320	3,459	1,574	4,873	6,438
Closing cash & cash eq.	1,301	4,760	6,334	11,207	17,645

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	12.3	20.1	24.1	29.1	35.5
Adjusted EPS	12.4	20.2	24.4	29.1	35.5
Dividend per share	1.0	1.0	1.2	2.9	5.3
Book value per share	74.8	94.4	116.2	141.8	170.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	15.5	12.6	9.0	7.6	6.6
EV/EBITDA	90.2	62.1	52.6	43.0	36.3
Adjusted P/E	159.7	98.3	81.3	68.3	55.9
P/BV	26.5	21.0	17.1	14.0	11.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	81.0	75.0	74.7	75.0	75.2
Interest burden (PBT/EBIT)	91.7	102.6	104.6	101.6	103.0
EBIT margin (EBIT/Revenue)	13.0	16.6	14.3	14.7	15.5
Asset turnover (Rev./Avg TA)	120.1	130.2	147.0	144.2	140.8
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.3
Adjusted ROAE	18.0	23.9	23.2	22.5	22.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	2.8	23.2	38.3	18.6	14.4
EBITDA	15.3	45.1	17.2	21.3	17.7
Adjusted EPS	25.4	62.5	20.9	19.0	22.3
Profitability & Return ratios (%)					
EBITDA margin	17.2	20.3	17.2	17.6	18.1
EBIT margin	13.0	16.6	14.3	14.7	15.5
Adjusted profit margin	9.7	12.8	11.2	11.2	12.0
Adjusted ROAE	18.0	23.9	23.2	22.5	22.7
ROCE	16.8	22.0	21.5	21.6	21.7
Working capital days (days)					
Receivables	40	29	23	21	22
Inventory	107	94	75	77	72
Payables	74	72	63	64	61
Ratios (x)					
Gross asset turnover	1.8	2.0	2.3	2.5	2.7
Current ratio	1.6	1.9	1.9	2.4	2.9
Net interest coverage ratio	8.5	45.5	103.0	40.8	66.9
Adjusted debt/equity	0.0	(0.2)	(0.2)	(0.4)	(0.5)

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

Disclaimer

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

BUY – Expected return >+15%

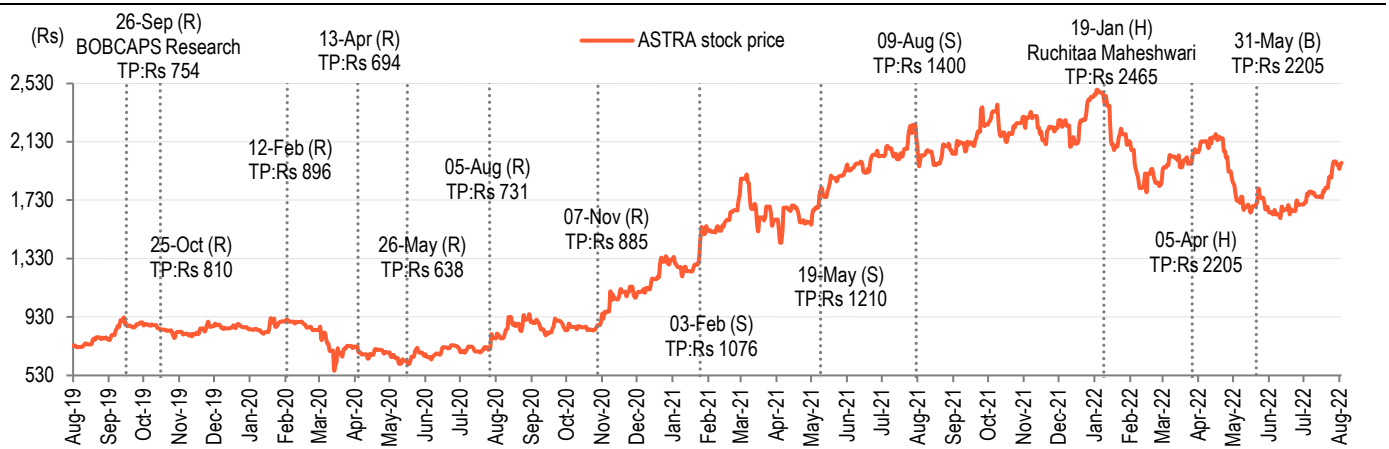
HOLD – Expected return from -6% to +15%

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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