

HOLD

TP: Rs 2,205 | ▲ 7%

ASTRAL

| Plastic Products

| 11 November 2022

Inventory loss, one-off expenses drag margin

- Consolidated Q2 revenue declined 2% YoY with plumbing down 11% but paints & adhesives up 27%; pipe volumes dipped 4%
- Operating margin contracted 535bps YoY to 12.3% due to inventory loss, high employee cost and expenses toward new products
- Retain TP of Rs 2,205 (set at 62x FY24E EPS) – retain HOLD.

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Revenue declines: ASTRA's consolidated Q2FY23 revenue dipped 2% YoY to Rs 11.7bn, as the plumbing business declined 11% due to a substantial fall in PVC prices whereas paints & adhesives grew 27% (includes Gem Paints). The company also lost six working days due to the merger of Resinova Chemie. Standalone revenue declined 7% YoY with EBITDA margin contraction of 520bps YoY to 12.5% due to a 4% drop in pipe volumes given higher destocking by channel partners. For H1, volumes grew 15%.

Margin contracts: Consolidated EBITDA margin contracted 535bps YoY to 12.3% due to one-offs from high-cost inventory (loss of ~Rs 450mn), elevated A&P spends, high employee cost (+140bps) and expenses toward a foreign trip arranged for channel partner. EBIT margin in plumbing fell 540bps YoY to 10% owing to a decline in PVC prices to the tune of Rs 30/kg. The paints & adhesives segment improved its EBIT margin by 125bps to 7% aided by Gem Paints business (unlike in Q2FY22).

Better placed than peers: Due to a better value-added product mix and higher CPVC contribution, ASTRA's EBIT margin in plumbing was at 10%. In contrast, SI's EBIT margin in plastic pipes was just 1.9% and FNXP reported negative EBIT.

EBITDA/kg to revive in Q4: ASTRA incurred an inventory loss of ~Rs 450mn in Q2 and ~Rs 250mn in Q1 due to falling PVC prices. This pulled down EBITDA/kg to Rs 32.1 vs. Rs 44.9 in Q2FY22 and Rs 36.2 in Q1FY23. PVC prices declined by Rs 30/kg during Q2 and channel partners are maintaining lean inventory. However, most of the company's high-cost inventory has been absorbed in H1. Management expects a limited fall in EBITDA/kg in Q3 and revival in Q4.

Maintain HOLD: We like ASTRA for its strong growth prospects, market leadership, net debt-free balance sheet, wide distribution with strong retail franchise, and healthy return ratios. The stock is trading at 58x FY24E EPS. Our TP remains at Rs 2,205, set at 62x FY24E EPS (vs. the 5Y median of ~73x), which offers limited 7% upside potential – retain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ASTRA IN/Rs 2,062
Market cap	US\$ 5.1bn
Free float	44%
3M ADV	US\$ 14.6mn
52wk high/low	Rs 2,655/Rs 1,582
Promoter/FPI/DII	56%/16%/28%

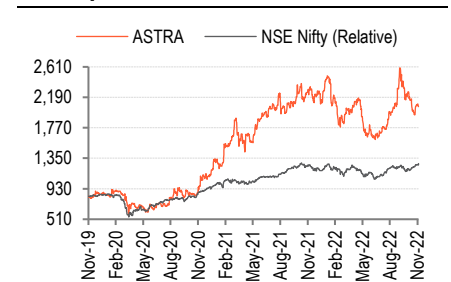
Source: NSE | Price as of 11 Nov 2022

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	27.3	35.4
Adj. ROAE (%)	23.2	22.5	22.7
Adj. P/E (x)	84.4	70.9	58.0
EV/EBITDA (x)	54.6	44.7	37.7
Adj. EPS growth (%)	20.9	19.0	22.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- Management is hopeful of achieving high-double-digit pipe volume growth in H2FY23. For FY24, management expects volume growth of 15%. In normal circumstances, EBITDA margin of the business is 16-17%.
- Demand scenario is healthy with low inventory in the system and management expects demand to improve in H2.
- ASTRA's volumes declined 4% YoY in Q2FY23 compared to positive volume growth reported by peers. (a) ASTRA has been growing in the past quarters and showed a volume decline off a high base. However, peers reported volume growth on a low base. (b) ASTRA has lost 6 days of working owing to the merger process (Due to a delay in receiving a signed copy of the NCLT order for merger with Resinova Chemie) which impacted volumes. (c) The agriculture segment is picking up which has been aiding volume growth for peers. However, the margin for peers remained lower than ASTRA.
- Per management, margin pressure was witnessed during the quarter mainly because of reduction in key polymer (PVC) prices to the tune of Rs 30/kg which resulted in inventory loss of ~Rs 450mn in Q2 and ~Rs 250mn in Q1. However due to a better value-added product mix and higher CPVC contribution, the company was able to report a double-digit EBITDA margin in the plumbing segment.
- Adhesive margins were also under pressure due to higher prices of key raw materials during Q2, but pressure on raw materials has started coming down which will help in partial margin improvement in Q3 and will have full benefit in Q4.
- Gem Paints' sales in Q2FY23 totalled Rs 560mn vs. ~Rs 500mn in Q2FY22 and Rs 553mn in Q1FY23. Heavy rainfall, especially in the south, impacted the paint business. EBITDA margin stood at ~19% in Q2FY23 and 17% in H1FY23. Margins are high owing to the absence of branding investment and fewer employees. As per management, the focus is volume growth, and with increasing branding and hiring of employees, the margin will come down. The normal margin range is 14-15%.
- Seal IT (UK adhesive subsidiary) reported a decline in topline by 8% in H1FY23 compare to H1FY22 because of appreciation of the INR vs. the GBP. Constant currency growth was higher by 8%.
- CPVC prices are currently stable due to anti-dumping duty but supply is constrained. CPVC prices have not corrected YTD.
- The company has geared up operations of the sanitaryware & faucet business and has completed 34 showrooms/display centres supported by channel partners. A total of 97 more such showrooms/display centres in various states of the country are under construction and most of them will be ready by Q3. Further, the company is planning to complete a minimum of 500 such showrooms/display centres by FY23. All the setup cost will be borne by channel partners. Sizeable revenue contribution is expected from Q1FY24 onwards.
- Current SKUs in sanitaryware are 136 and faucetware 411.

- The company has started manufacturing of PVC, SWR (soil, water, rain) and agricultural pipes along with water tanks at Odisha Plant (east) and this will be fully operational in Q3. It expects the tank business to pick up aggressively in H2 as the monsoon is over. Management maintained that the water tank business should contribute Rs 1bn of revenue in FY23.
- ASTRA expects to ramp up plumbing and industrial valve production in Q3. The company has rolled out 12 SKUs in Q2 and is planning to roll out another 108 in Q3FY23.
- Due to volatility in foreign currency during H1FY23, the company incurred a loss of Rs 240mn, out of which Rs 150mn is unrealised. Management hopes for a reversal of such unrealised loss, if the rupee appreciates.
- Consolidated cash (including cash equivalents) and bank balances as at 30 Sep 2022 stood at Rs 4.6bn.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Total revenues	11,716	11,999	(2.4)	12,129	(3.4)	23,845	19,000	25.5
Total raw material consumed	8,177	8,166	0.1	8,351	(2.1)	16,528	12,484	32.4
% of sales	69.8	68.1	174bps	68.9	94bps	69.3	65.7	361bps
Employee exps	762	615	23.9	768	(0.8)	1,530	1,196	27.9
% of sales	6.5	5.1	138bps	6.3	17bps	6.4	6.3	12bps
Other exp	1,337	1,103	21.2	1,293	3.4	2,630	1,911	37.6
% of sales	11.4	9.2	222bps	10.7	75bps	11.0	10.1	97bps
Total expenditure	10276	9884	4.0	10412	(1.3)	20688	15591	32.7
% of sales	87.7	82.4	534bps	85.8	187bps	86.8	82.1	470bps
EBITDA	1,440	2,115	(31.9)	1,717	(16.1)	3,157	3,409	(7.4)
EBITDA Margin (%)	12.3	17.6	(534bps)	14.2	(187bps)	13.2	17.9	(470bps)
Depreciation	448	314	42.7	433	3.5	881	620	42.1
Other income	135	80	68.8	114	18.4	249	123	102.4
Interest cost	40	12	233.3	27	48.1	67	25	168.0
PBT	1,087	1,869	(41.8)	1,371	(20.7)	2,458	2,887	(14.9)
Taxes	241	437	(44.9)	316	(23.7)	557	671	(17.0)
Effective tax rate (%)	22.2	23.4	(121bps)	23.0	(88bps)	22.7	23.2	(58bps)
RPAT before extraordinary	846	1432	(40.9)	1055	(19.8)	1901	2216	(14.2)
Less: extraordinary items	0	0	-	0	-	0	0	-
Less: forex loss/(gain)	100	(1)	-	117	-	217	32	-
Less: minority int	(42)	(21)	-	(49)	-	(91)	(33)	-
Less: Loss from JV	0	0	-	0	-	0	0	-
APAT	804	1411	(43.0)	1006	(20.1)	1810	2183	(17.1)
RPAT	704	1412	(50.1)	889	(20.8)	1593	2151	(25.9)

Source: BOBCAPS Research, Company

Fig 2 – Segmental performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Net Sales								
Plumbing	8,361	9,355	(10.6)	8,761	(4.6)	17,122	14,396	18.9
Paints & Adhesives	3,355	2,644	26.9	3,368	(0.4)	6,723	4,604	46.0
Total	11,716	11,999	(2.4)	12,129	(3.4)	23,845	19,000	25.5
EBIT								
Plumbing	838	1,443	(41.9)	977	(14.2)	1,815	2,201	(17.5)
Paints & Adhesives	236	153	54.2	316	(25.3)	552	637	(13.3)
Total	1,074	1,596	(32.7)	1,293	(16.9)	2,367	2,838	(16.6)
EBIT Margin (%)								
Plumbing	10.0	15.4	(540bps)	11.2	(113bps)	10.6	15.3	(469bps)
Paints & Adhesives	7.0	5.8	125bps	9.4	(235bps)	8.2	13.8	(563bps)

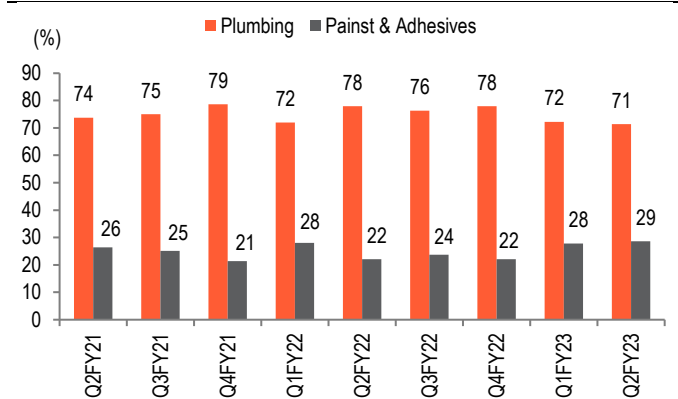
Source: Company, BOBCAPS Research

Fig 3 – Standalone quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Total revenues	10,418	11,158	(6.6)	8,998	15.8	19,416	16,336	18.9
Total raw material consumed	7,289	7,672	(5.0)	6,250	16.6	13,539	10,872	24.5
% of sales	70.0	68.8	121bps	69.5	51bps	69.7	66.6	318bps
Employee exps	590	489	20.7	390	51.3	980	800	22.5
% of sales	5.7	4.4	128bps	4.3	133bps	5.0	4.9	15bps
Other exp	1,232	1,020	20.8	1,034	19.1	2,266	1,653	37.1
% of sales	11.8	9.1	268bps	11.5	33bps	11.7	10.1	155bps
Total expenditure	9111	9181	(0.8)	7674	18.7	16785	13325	26.0
% of sales	87.5	82.3	517bps	85.3	217bps	86.4	81.6	488bps
EBITDA	1307	1977	(33.9)	1324	(1.3)	2631	3011	(12.6)
EBITDA Margin (%)	12.5	17.7	(517bps)	14.7	(217bps)	13.6	18.4	(488bps)
Depreciation	343	287	19.5	297	15.5	640	540	18.5
Other income	41	75	(45.3)	62	(33.9)	103	110	(6.4)
Interest cost	24	6	300.0	10	140.0	34	11	209.1
PBT	981	1,759	(44.2)	1,079	(9.1)	2,060	2,570	(19.8)
Taxes	227	419	(45.8)	242	(6.2)	469	620	(24.4)
Effective tax rate (%)	23.1	23.8	(68bps)	22.4	71bps	22.8	24.1	(136bps)
APAT	754	1340	(43.7)	837	(9.9)	1591	1950	(18.4)
extraordinary items	0	1	-	0	-	0	1	-
Forex	(100)	0	-	(107)	-	0	0	-
RPAT	654	1341	(51.2)	730	(10.4)	1591	1951	(18.5)

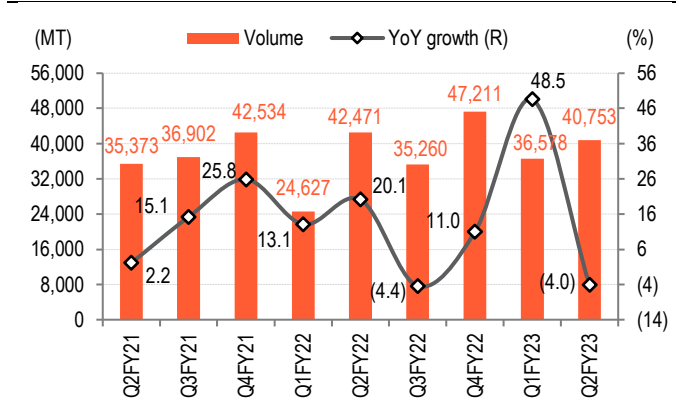
Source: BOBCAPS Research, Company

Fig 4 – Consolidated revenue mix



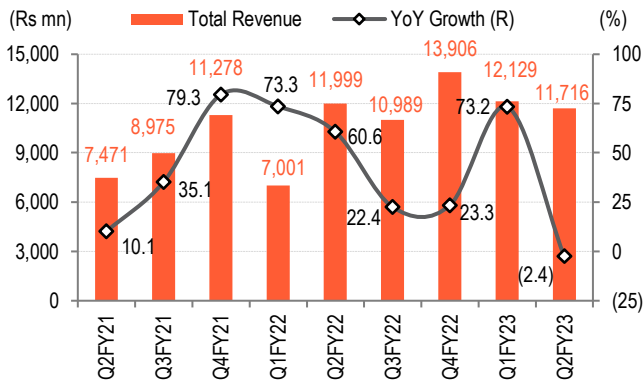
Source: Company, BOBCAPS Research

Fig 5 – Piping volume growth



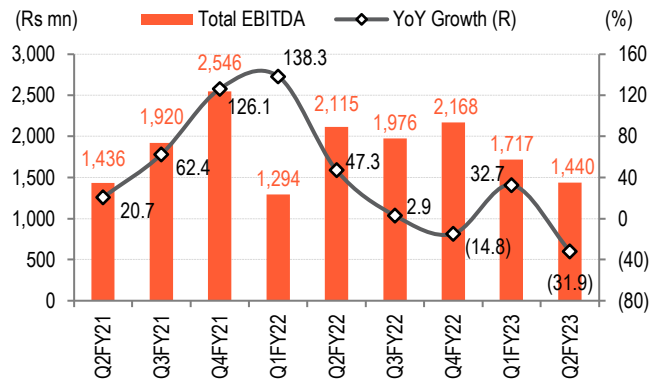
Source: Company, BOBCAPS Research

Fig 6 – Consolidated revenue growth



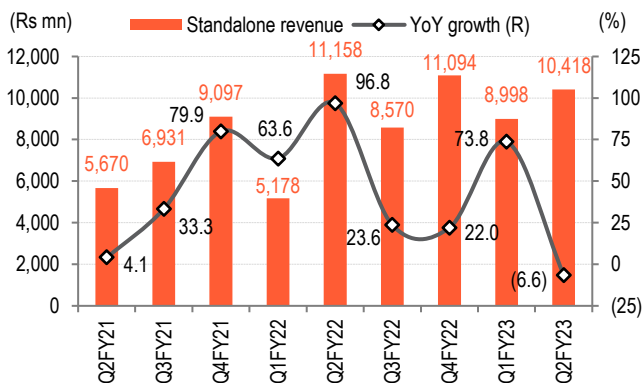
Source: Company, BOBCAPS Research

Fig 7 – Consolidated EBITDA growth



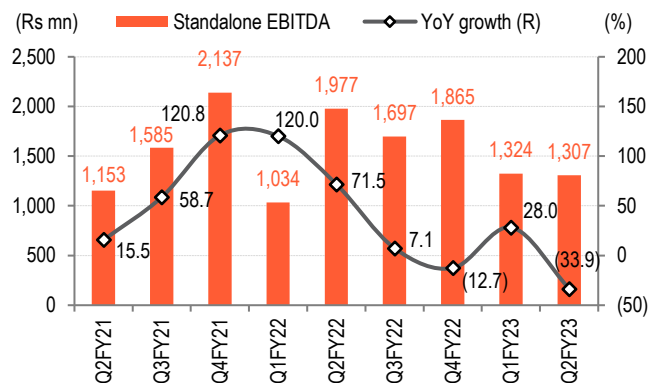
Source: Company, BOBCAPS Research

Fig 8 – Standalone revenue growth



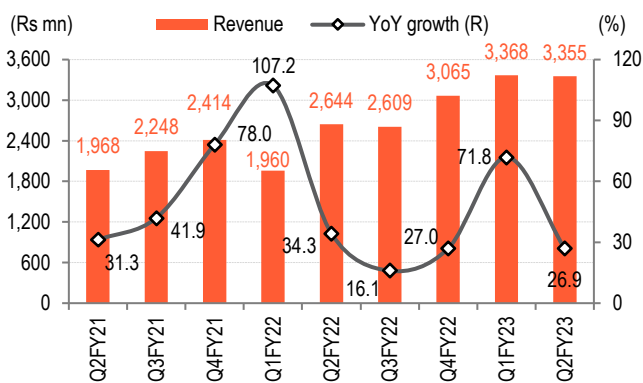
Source: Company, BOBCAPS Research

Fig 9 – Standalone EBITDA growth



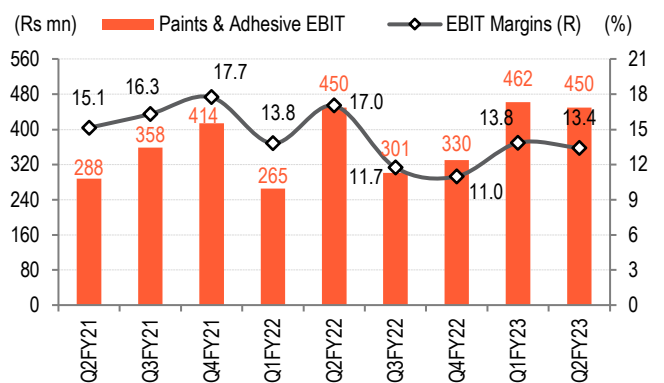
Source: Company, BOBCAPS Research

Fig 10 – Paints & adhesives revenue growth



Source: Company, BOBCAPS Research

Fig 11 – Paints & adhesives EBIT 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.

On the whole, we like ASTRA for its strong growth prospects, market leadership, net debt-free balance sheet, wide distribution with strong retail franchise and healthy return ratios. However, valuations look full at current levels of 58x FY24E EPS. We thus retain HOLD; our TP remains at Rs 2,205, set at an unchanged 62x FY24E EPS (vs. the stock's five-year median of ~73x).

Key risks

Key downside risks to our estimates are:

- below-expected growth in the housing market,
- higher raw material prices in adhesives which may impact segmental profitability,
- sharp fall in PVC prices, and
- failure of new products and categories.

Key upside risk risks to our estimates are:

- strong demand in real estate,
- decline in raw material prices,
- faster economic revival, and
- slower offtake from competitors.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Astral	ASTRA IN	5.1	2,062	2,205	HOLD
Finolex Industries	FNXP IN	1.2	152	130	HOLD
Supreme Industries	SI IN	3.8	2,421	2,055	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 Nov 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	16.1	13.1	9.4	7.9	6.8
EV/EBITDA	93.7	64.5	54.6	44.7	37.7
Adjusted P/E	165.8	102.1	84.4	70.9	58.0
P/BV	27.6	21.8	17.7	14.5	12.1

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

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

BUY – Expected return >+15%

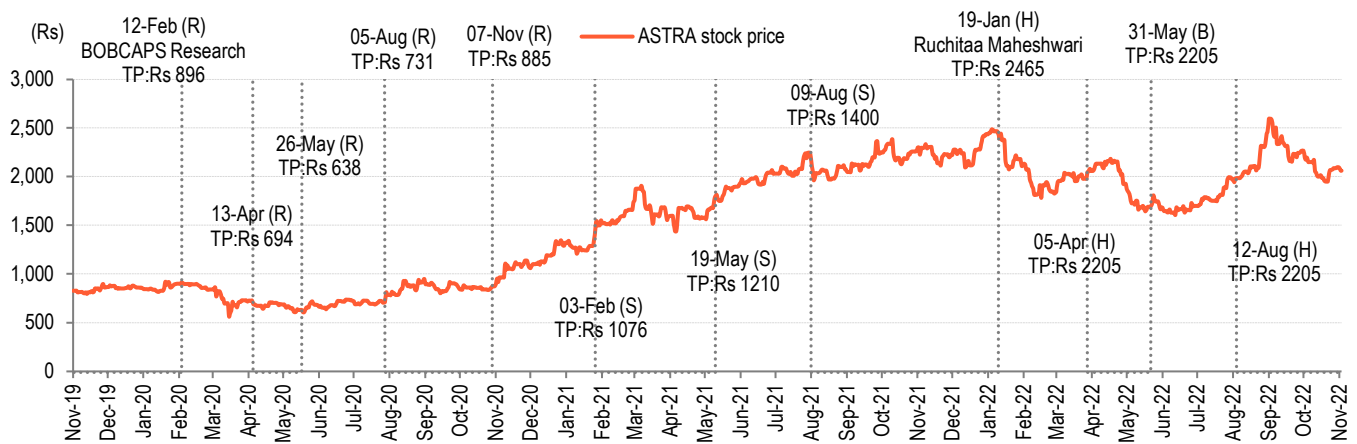
HOLD – Expected return from -6% to +15%

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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