

HOLD

TP: Rs 2,465 | ▲ 13%

ASTRAL

| Plastic Products

| 05 February 2022

Decent quarter; FY24 outlook bright

- Consolidated Q3 revenue grew ~23% YoY with pipe/adhesive segments up 25%/16%; pipe volumes dipped 4% due to dealer destocking
- Operating margin declined 340bps YoY to 18% as pipe/adhesive margins contracted by 305bps/455bps
- We maintain our TP of Rs2,465, valuing ASTRA at 65x FY24E P/E; retain HOLD as upside potential looks limited

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Steady revenue growth but volumes decline: ASTRA's consolidated Q3FY22 revenue grew ~23% YoY to Rs 11bn as better realisations (at Rs 243/kg vs. Rs 189/kg YoY) countered a contraction in volumes due to extended rainfall, construction bans in some geographies, the third Covid-19 wave and destocking by dealers due to PVC price fluctuations. Standalone revenue increased ~24% YoY in PVC pipes (volumes down 4%) and 16% YoY in adhesives. Management expects demand to improve backed by an increase in housing uptake, absorption of real estate inventory and PVC price normalisation.

Margin declines as RM costs climb: Consolidated EBITDA margin declined 340bps YoY to 18% as both of ASTRA's business segments saw cost inflation. EBITDA margin in pipes fell 305bps YoY to 19.8% due to higher raw material cost (+320bps) and lower volumes (-4%). Adhesive margins contracted 455bps to 11.7% owing to high chemical costs and price hikes coming into effect with a lag. In addition, UK performance was subdued due to the non-availability of key input silicon, which further affected margins.

Full expansion benefits to kick in from FY24: ASTRA has completed the following expansion projects: (a) Hosur plastic water tank, (b) Bhubaneswar machine installation (trials to start in February and commercial production by March), (c) valve project at Dholka (a few sizes launched and a few under trials), (d) pipe manufacturing at Aurangabad, and (e) blow molding water tanks at Santej and Ghiloth. The company has finalised the design and vendors for sanitaryware and faucetware and plans to launch products in these segments in May'22. Its adhesive plant in the Dahej (Gujarat) Chemical Zone will be ready by FY23-end.

Maintain HOLD: We like ASTRA for its strong growth prospects, market leadership, above-industry volume growth (9% in 9MFY22), net-debt free balance sheet, wide distribution network and healthy return ratios. The stock is trading at 58x FY24E P/E vs. its five-year median of ~70x. While we believe ASTRA merits a premium to peers and hence value the stock at 65x FY24E EPS, we see limited upside potential from current levels and hence retain HOLD. Our TP remains at Rs 2,465.

Key changes

Target	Rating
◀ ▶	◀ ▶

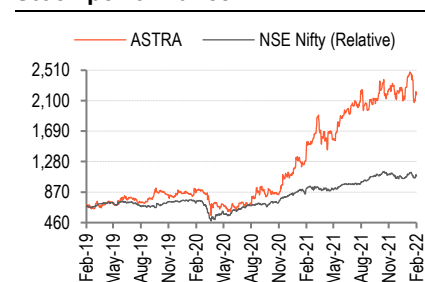
Ticker/Price	ASTRA IN/Rs 2,181
Market cap	US\$ 5.9bn
Free float	44%
3M ADV	US\$ 11.5mn
52wk high/low	Rs 2,525/Rs 1,411
Promoter/FPI/DII	56%/20%/24%

Source: NSE | Price as of 4 Feb 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	31,763	39,324	47,535
EBITDA (Rs mn)	6,445	7,136	9,064
Adj. net profit (Rs mn)	4,059	4,526	5,935
Adj. EPS (Rs)	20.2	22.5	29.5
Consensus EPS (Rs)	20.2	25.9	31.6
Adj. ROAE (%)	23.9	22.5	26.0
Adj. P/E (x)	107.9	96.8	73.8
EV/EBITDA (x)	68.1	61.1	47.9
Adj. EPS growth (%)	62.5	11.5	31.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Earnings call highlights

- Demand during Q3FY22 was affected by resurgence of the pandemic, torrential rain, construction bans in some geographies and destocking by dealers due to PVC price fluctuations. Management indicated that demand has been muted in January as well with flat or low-single-digit pipe volume growth. ASTRA expects to recoup volume losses in February and March given the pickup in real estate construction and sizeable reduction in housing inventory.
- CPVC prices have been on an uptrend led by higher PVC and chemical prices together with global supply disruptions.
- Per management, the company is gaining market share in the CPVC category.
- Management expects to witness the full benefits of capacity expansion projects in FY24.
- ASTRA is net debt-free and had surplus cash of ~Rs 3.1bn as of 31 Dec 2021.
- Working capital days for the quarter stood at 31-32 days.

Piping segment

- Following channel destocking due to erratic PVC prices, ASTRA expects dealers to keep inventory light for a few more months.
- Management believes pipe volumes can grow in double digits given the pickup in real estate demand.
- Subsidiary Rex did see a slowdown for a few months but is on the road to recovery.

Adhesive segment

- Adhesives revenue grew 16% YoY to Rs 2.6bn in Q3FY22 with an EBITDA margin of 11.7% vs. 16.3% in Q3FY21.
- 9MFY22 revenue stood at Rs 7.2bn and the company indicated that it is on track to reach Rs 10bn in FY22.
- Management has a target of doubling the segment's topline in the next 4-5 years.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Total revenues	10,989	8,975	22.4	11,541	(4.8)	29,531	20,485	44.2
Total raw material consumed	7,220	5,562	29.8	7,708	(6.3)	19,246	12,820	50.1
% of sales	65.7	62.0	373bps	66.8	(109bps)	65.2	62.6	259bps
Employee exps	616	524	17.6	615	0.2	1,812	1,435	26.3
% of sales	5.6	5.8	(23bps)	5.3	28bps	6.1	7.0	(87bps)
Other exp	1,177	969	21.5	1,103	6.7	3,088	2,331	32.5
% of sales	10.7	10.8	(9bps)	9.6	115bps	10.5	11.4	(92bps)
Total expenditure	9013.0	7055.0	27.8	9426.0	(4.4)	24146.0	16586.0	45.6
% of sales	82.0	78.6	341bps	81.7	34bps	81.8	81.0	80bps
EBITDA	1,976.0	1,920.0	2.9	2,115.0	(6.6)	5,385.0	3,899.0	38.1
EBITDA Margin (%)	18.0	21.4	(341bps)	18.3	(34bps)	18.2	19.0	(80bps)
Depreciation	321.0	300.0	7.0	314.0	2.2	941.0	873.0	7.8
Other income	62.0	61.0	1.6	80.0	(22.5)	185.0	149.0	24.2
Interest cost	20.0	27.0	(25.9)	12.0	66.7	45.0	105.0	(57.1)
PBT	1697.0	1654.0	2.6	1869.0	(9.2)	4584.0	3070.0	49.3
Taxes	418.0	413.0	1.2	437.0	(4.3)	1,089.0	721.0	51.0
Effective tax rate (%)	24.6	25.0	(34bps)	23.4	125bps	23.8	23.5	27bps
RPAT before extraordinaries	1279.0	1241.0	3.1	1432.0	(10.7)	3495.0	2349.0	48.8
Less: forex loss/(gain)	0.0	(10.0)	NA	(1.0)	NA	32.0	(38.0)	NA
Less: minority int	(6.0)	(7.0)	NA	(21.0)	NA	(39.0)	(23.0)	NA
Less: Loss from JV	0.0	12.0	NA	0.0	NA	0.0	66.0	NA
APAT	1,273.0	1,222.0	4.2	1,411.0	(9.8)	3,456.0	2,260.0	52.9
RPAT	1273.0	1232.0	3.3	1412.0	(9.8)	3424.0	2298.0	49.0

Source: BOBCAPS Research, Company

Fig 2 – Segmental performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Net Sales								
Plastics	8,380.0	6,727.0	24.6	4,933.0	70	22,320.0	15,323.0	45.7
Adhesives	2,609.0	2,248.0	16.1	1,356.0	92	7,211.0	5,162.0	39.7
Total	10,989.0	8,975.0	22.4	6,289.0	75	29,531.0	20,485.0	44.2
EBIT								
Plastics	1,376.0	1,290.0	6.7	699.0	97	3,577.0	2,392.0	49.5
Adhesives	290.0	153.0	89.5	153.0	90	927.0	692.0	34.0
Total	1,666.0	1,443.0	15.5	852.0	96	4,504.0	3,084.0	46.0
EBIT Margin (%)								
Plastics	16.4	19.2	(276bps)	14.2	225bps	16.0	15.6	42bps
Adhesives	11.1	6.8	431bps	11.3	(17bps)	12.9	13.4	(55bps)

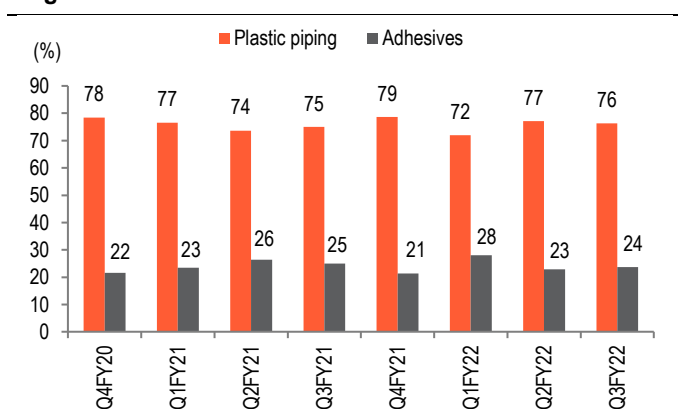
Source: Company, BOBCAPS Research

Fig 3 – Standalone quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Total revenues	8,570	6,931	23.6	9,100	(5.8)	22,842	15,766	44.9
Total raw material consumed	5,618	4,321	30.0	6,140	(8.5)	14,952	9,987	49.7
% of sales	65.6	62.3	321bps	67.5	(192bps)	65.5	63.3	211bps
Employee exps	319	280	13.9	335	(4.8)	965	799	20.8
% of sales	3.7	4.0	(32bps)	3.7	4bps	4.2	5.1	(84bps)
Other exp	936	745	25.6	871	7.5	2,440	1,772	37.7
% of sales	10.9	10.7	17bps	9.6	135bps	10.7	11.2	(56bps)
Total expenditure	6873.0	5346.0	28.6	7346.0	(6.4)	18357.0	12558.0	46.2
% of sales	80.2	77.1	307bps	80.7	(53bps)	80.4	79.7	71bps
EBITDA	1697.0	1585.0	7.1	1754.0	(3.2)	4485.0	3208.0	39.8
EBITDA Margin (%)	19.8	22.9	(307bps)	19.3	53bps	19.6	20.3	(71bps)
Depreciation	265.0	242.0	9.5	259.0	2.3	777.0	717.0	8.4
Other income	44.0	45.0	(2.2)	58.0	(24.1)	137.0	114.0	20.2
Interest cost	6.0	15.0	(60.0)	6.0	0.0	17.0	70.0	(75.7)
PBT	1470.0	1373.0	7.1	1547.0	(5.0)	3828.0	2535.0	51.0
Taxes	366.0	351.0	4.3	389.0	(5.9)	956.0	651.0	46.9
Effective tax rate (%)	24.9	25.6	(67bps)	25.1	(25bps)	25.0	25.7	(71bps)
APAT	1104.0	1022.0	8.0	1158.0	(4.7)	2872.0	1884.0	52.4
extraordinary items	1.0	0.0	NA	1.0	0.0	(31.0)	(70.0)	NA
Forex	0.0	18.0	NA	0.0	NA	0.0	52.0	NA
RPAT	1,105.0	1,040.0	6.3	1,159.0	(4.7)	2,841.0	1,866.0	52.3

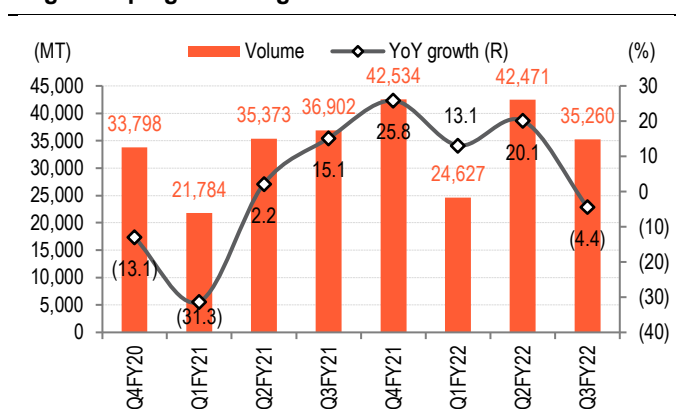
Source: BOBCAPS Research, Company

Fig 4 – Consolidated revenue mix



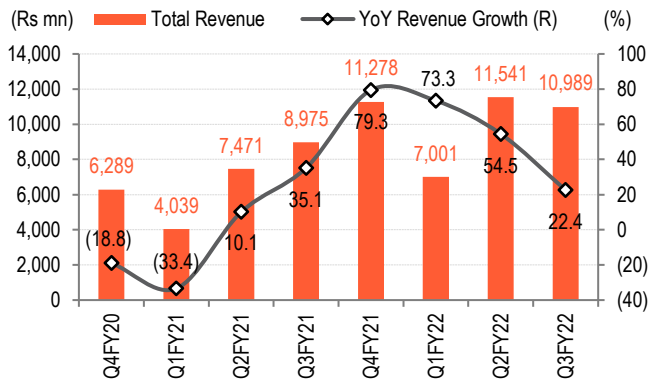
Source: Company, BOBCAPS Research

Fig 5 – Piping volume growth



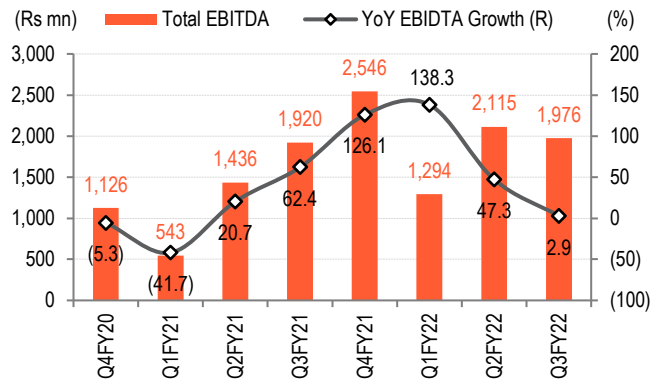
Source: Company, BOBCAPS Research

Fig 6 – Consolidated revenue growth



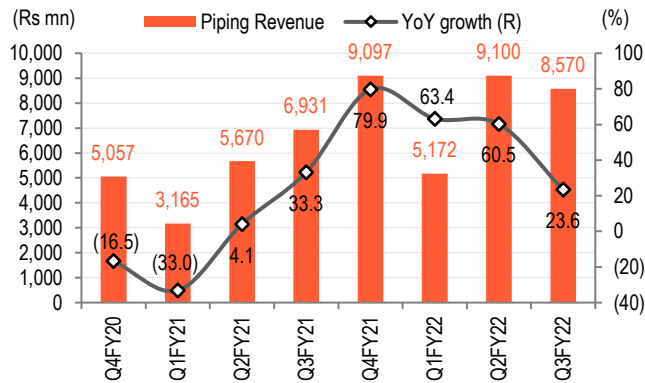
Source: Company, BOBCAPS Research

Fig 7 – Consolidated EBITDA growth



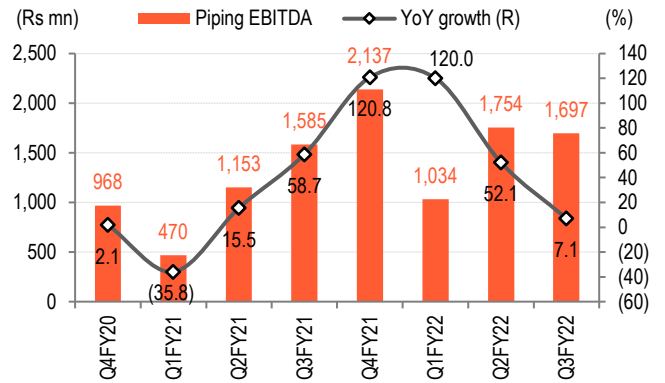
Source: Company, BOBCAPS Research

Fig 8 – Standalone piping revenue growth



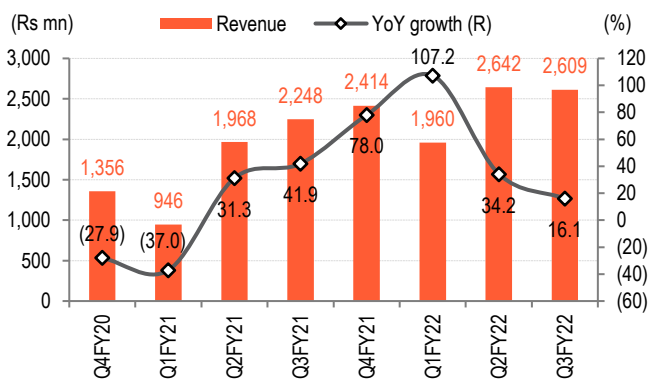
Source: Company, BOBCAPS Research

Fig 9 – Standalone piping EBITDA growth



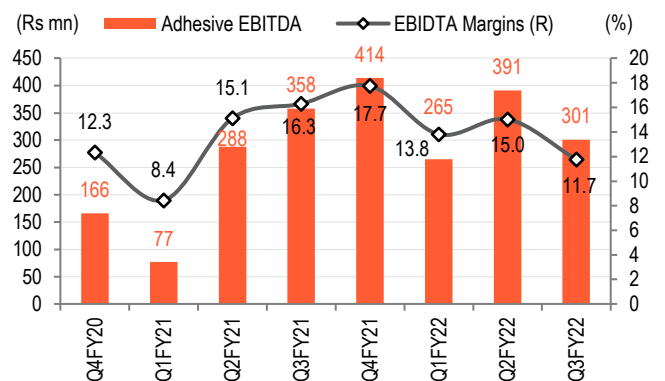
Source: Company, BOBCAPS Research

Fig 10 – Standalone adhesives revenue growth



Source: Company, BOBCAPS Research

Fig 11 – Standalone adhesives EBITDA margin



Source: Company, BOBCAPS Research

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 expected 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 further growth.

We like ASTRA for its strong growth prospects, market leadership, above-industry volume growth (9% in 9MFY22), net-debt free balance sheet, wide distribution network and healthy return ratios. The stock is trading at 58x FY24E P/E vs. its five-year median of ~70x. While we believe ASTRA merits a premium to peers and hence value the stock at 65x FY24E EPS, we see limited upside potential from current levels and hence retain HOLD. Our TP remains at Rs 2,465.

Fig 12 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Pipe Volumes (MT)	1,36,593	1,63,912	1,91,777	2,20,543
Growth (%)	3.3	20.0	17.0	15.0
Pipe EBITDA (Rs/kg)	39.1	34.4	36.8	39.4
Growth (%)	39.9	(12.0)	7.0	7.0
Adhesives Revenues (Rs mn)	7,345	9,190	11,573	14,528
Growth (%)	26.0	25.1	25.9	25.5
Adhesive operating margins (%)	15.5	16.2	17.3	17.5

Source: Company, BOBCAPS Research

Fig 13 – 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	BUY	1,460	21.5	22.8	29.6	18.9	23.3	40
Somany Ceramics	SOMC IN	BUY	1,140	19.0	20.5	32.8	12.5	17.3	25
Greenply Ind	MTLM IN	BUY	260	18.0	7.7	10.2	19.7	21.4	22
Century Plyboard	CPBI IN	HOLD	735	23.8	13.6	16.7	22.1	22.1	35
Greenpanel Ind	GREENP	BUY	595	34.0	16.0	21.7	23.7	25.1	23
Cera Sanitaryware	CRS IN	BUY	5,590	17.1	109.8	134.9	15.4	16.9	35
Pidilite	PIDI IN	HOLD	2,445	19.4	25.1	31.7	21.8	25.0	65
Astral	ASTRA IN	HOLD	2,465	22.3	22.5	29.5	22.5	26.0	65
Finolex Ind	FNXP IN	HOLD	200	7.7	10.2	9.4	19.0	15.9	20
Supreme Ind	SI IN	HOLD	2,535	15.7	74.7	80.7	28.0	26.7	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	39,324	47,535	56,711
EBITDA	4,441	6,445	7,136	9,064	11,230
Depreciation	(1,079)	(1,165)	(1,293)	(1,419)	(1,527)
EBIT	3,362	5,280	5,844	7,645	9,703
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	6,021	7,914	10,135
Income taxes	(568)	(1,248)	(1,445)	(1,899)	(2,432)
Extraordinary items	(19)	(15)	0	0	0
Min. int./Inc. from assoc.	(17)	(108)	(50)	(80)	(80)
Reported net profit	2,479	4,044	4,526	5,935	7,623
Adjustments	19	15	0	0	0
Adjusted net profit	2,498	4,059	4,526	5,935	7,623

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	4,754	5,172	6,249	7,553	9,012
Other current liabilities	563	1,250	970	1,172	1,398
Provisions	92	69	118	143	170
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	21,093	24,155	27,627
Shareholders' fund	15,029	18,958	21,293	24,356	27,828
Total liab. and equities	22,462	26,327	29,092	33,666	38,880
Cash and cash eq.	1,301	4,760	4,477	6,654	9,305
Accounts receivables	2,278	2,767	3,555	4,298	5,127
Inventories	5,404	4,721	6,464	7,814	9,322
Other current assets	913	769	1,077	1,302	1,554
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	29,092	33,666	38,880

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	4,133	6,745	3,932	6,606	8,291
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)	(2,191)	(2,872)	(4,151)
Other financing cash flows	(198)	(114)	50	80	80
Cash flow from financing	(1,729)	(1,571)	(2,715)	(2,930)	(4,139)
Chg in cash & cash eq.	320	3,459	(283)	2,176	2,651
Closing cash & cash eq.	1,301	4,760	4,477	6,654	9,305

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	12.3	20.1	22.5	29.5	37.9
Adjusted EPS	12.4	20.2	22.5	29.5	37.9
Dividend per share	1.0	1.0	9.0	11.8	17.1
Book value per share	74.8	94.4	106.0	121.2	138.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	17.1	13.8	11.1	9.1	7.6
EV/EBITDA	99.0	68.1	61.1	47.9	38.5
Adjusted P/E	175.4	107.9	96.8	73.8	57.5
P/BV	29.1	23.1	20.6	18.0	15.7

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	81.0	75.0	75.2	75.0	75.2
Interest burden (PBT/EBIT)	91.7	102.6	103.0	103.5	104.4
EBIT margin (EBIT/Revenue)	13.0	16.6	14.9	16.1	17.1
Asset turnover (Rev./Avg TA)	120.1	130.2	141.9	151.5	156.3
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	18.0	23.9	22.5	26.0	29.2

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	2.8	23.2	23.8	20.9	19.3
EBITDA	15.3	45.1	10.7	27.0	23.9
Adjusted EPS	25.4	62.5	11.5	31.1	28.4
Profitability & Return ratios (%)					
EBITDA margin	17.2	20.3	18.1	19.1	19.8
EBIT margin	13.0	16.6	14.9	16.1	17.1
Adjusted profit margin	9.7	12.8	11.5	12.5	13.4
Adjusted ROAE	18.0	23.9	22.5	26.0	29.2
ROCE	16.8	22.0	21.4	25.0	27.8
Working capital days (days)					
Receivables	40	29	29	30	30
Inventory	107	94	81	86	87
Payables	74	72	65	65	66
Ratios (x)					
Gross asset turnover	1.8	2.0	2.2	2.4	2.7
Current ratio	1.6	1.9	2.1	2.2	2.4
Net interest coverage ratio	8.5	45.5	54.0	203.9	517.5
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%

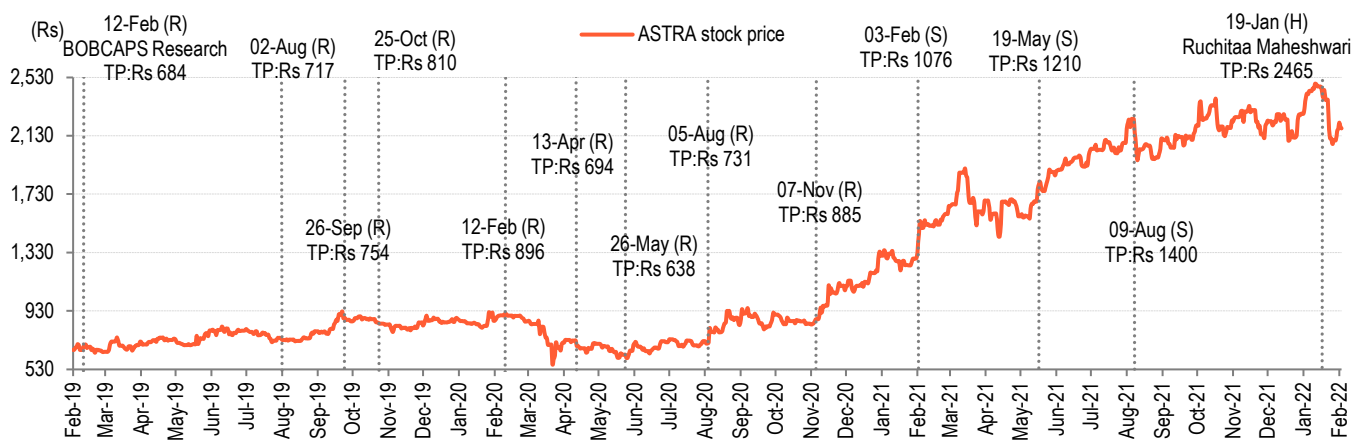
HOLD – Expected return from -6% to +15%

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

Rating distribution

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