

**HOLD**

TP: Rs 2,000 | ▲ 7%

**ASTRAL**

| Building Materials

| 30 January 2024

**Mixed quarter, guidance broadly intact**

- Topline in line at Rs 13.7bn; miss at EBITDA level on one-off expense and MTM inventory loss
- Pipe volume growth lags that of closest peer SI for eighth straight quarter
- Maintain HOLD with unchanged TP of Rs 2,000 on expensive valuations

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**Mixed quarter:** ASTRA's Q3FY24 topline was broadly in line with our estimate, but the company missed our EBITDA/PAT forecasts by 10%/17% due to a one-time expense of Rs 110mn towards celebration of its 25<sup>th</sup> anniversary and an MTM inventory loss of Rs 200mn. Consolidated revenue/EBITDA/PAT grew 8%/10%/23% YoY.

**Key result highlights:** At 15% YoY, ASTRA reported inferior pipe volume growth compared to SI (17% YoY) for the eighth consecutive quarter in Q3. The adhesives (SEAL IT), paints and bathware divisions once again reported weak performances, but management expects improvement from FY25 onwards. On a positive note, Resinova reported strong EBITDA growth of 15% YoY in Q3 due to benefits from startup of the new Dahej unit in Sep'23 and lower chemical prices.

**Guidance intact:** The company has maintained its pipe volume growth guidance of 20%+ for FY24. Over the medium term, ASTRA aims to increase its pipe volumes at a 15% CAGR with a 16-17% EBITDA margin (vs. 16-18% earlier). Resinova's revenue growth guidance has been maintained at 15-20% YoY with EBITDA margin of 14-15% (15%+ earlier) over the medium term. Management expects SEAL IT to deliver a better operating margin of 8% in Q4FY24, rising to double digits in FY25. The performance of the paints division is also expected to improve from Q1FY25.

**Capex:** ASTRA has maintained its capex guidance of Rs 4.25bn/Rs 2.5bn for FY24/FY25. Pipe capacity has increased from 310ktpa in Q2FY24 to 320ktpa in Q3FY24. The company commenced operations at its greenfield plant in Guwahati (22 ktpa) in Jan'24. It plans to start production at its greenfield pipe facilities in Hyderabad (40ktpa in phase I) by Q2FY25 and Kanpur (25-30ktpa in phase I) by Q1FY26.

**Maintain HOLD:** The stock is trading at 73.1x on 1Y forward P/E vs. the 5Y average of 66.5x. We maintain our HOLD rating with an unchanged TP of Rs 2,000 due to expensive valuations. We have slightly pruned our EPS estimate for FY24 by 2% due to the weak Q3 result but largely maintained our forecasts for FY25/FY26. Our target P/E multiple remains unchanged at 70x on Sep'25E EPS.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

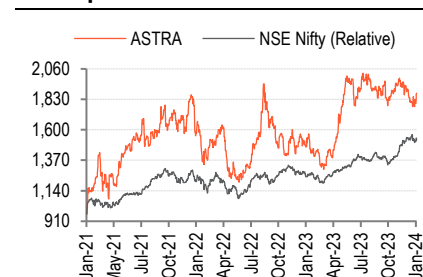
Ticker/Price	ASTRA IN/Rs 1,876
Market cap	US\$ 6.1bn
Free float	44%
3M ADV	US\$ 10.7mn
52wk high/low	Rs 2,058/Rs 1,298
Promoter/FPI/DII	56%/19%/13%

Source: NSE | Price as of 30 Jan 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	51,585	57,130	67,759
EBITDA (Rs mn)	8,100	9,452	11,930
Adj. net profit (Rs mn)	4,710	5,676	7,146
Adj. EPS (Rs)	17.5	21.1	26.6
Consensus EPS (Rs)	17.5	23.1	29.7
Adj. ROAE (%)	17.7	17.8	19.3
Adj. P/E (x)	107.2	88.9	70.6
EV/EBITDA (x)	62.9	54.0	42.8
Adj. EPS growth (%)	(3.0)	20.5	25.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

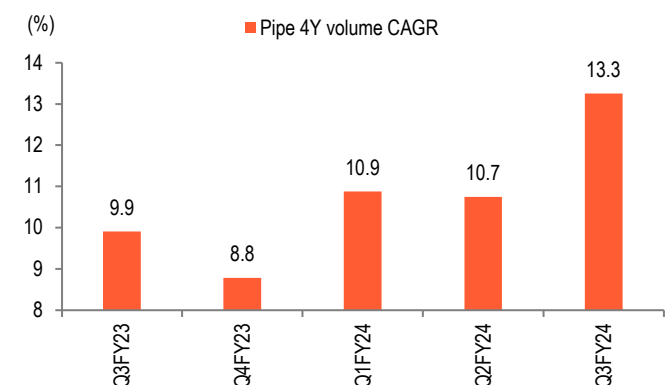
(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	13,702	12,678	8.1	13,630	0.5	40,163	36,523	10.0
Raw Material expense	8,425	8,538	(1.3)	8,328	1.2	24,803	25,066	(1.0)
Gross Profit	5,277	4,140	27.5	5,302	(0.5)	15,360	11,457	34.1
Employee expense	1,141	801	42.4	1,053	8.4	3,190	2,331	36.9
Other expense	2,085	1,475	41.4	2,048	1.8	5,902	4,116	43.4
EBITDA	2,051	1,864	10.0	2,201	(6.8)	6,268	5,010	25.1
D&A	501	455	10.1	487	2.9	1,451	1,336	8.6
EBIT	1,550	1,409	10.0	1,714	(9.6)	4,817	3,674	31.1
Interest cost	69	94	(26.6)	80	(13.8)	207	367	(43.6)
Interest income & others	58	(20)	(390.0)	134	(56.7)	313	203	54.2
PBT	1,539	1,295	18.8	1,768	(13.0)	4,923	3,510	40.3
Tax	406	346	17.3	451	(10.0)	1,280	903	41.7
Reported PAT	1,133	949	19.4	1,317	(14.0)	3,643	2,607	39.7
Adjusted PAT	1,139	930	22.5	1,312	(13.2)	3,649	2,510	45.4
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross margin	38.5	32.7	586	38.9	(39)	38.2	31.4	687
Employee cost	8.3	6.3	201	7.7	60	7.9	6.4	156
Other cost	15.2	11.6	358	15.0	19	14.7	11.3	343
EBITDA margin	15.0	14.7	27	16.1	(118)	15.6	13.7	189
Tax rate	26.4	26.7	(34)	25.5	87	26.0	25.7	27
APAT margin	8.3	7.3	98	9.6	(131)	9.1	6.9	221
<b>Pipe Segment</b>	<b>Q3FY24</b>	<b>Q3FY23</b>	<b>YoY (%)</b>	<b>Q2FY24</b>	<b>QoQ (%)</b>	<b>9MFY24</b>	<b>9MFY23</b>	<b>YoY (%)</b>
Sales Volume (kt)	52.7	45.9	15.0	52.1	1.3	152.8	123.2	24.0
Realisation (Rs/kg)	185	201	(7.8)	185	0.4	188	214	(12.3)
EBITDA (Rs/kg)	30.4	31.5	(3.5)	33.3	(8.6)	32.0	30.8	4.0
<b>Paints &amp; Adhesives</b>	<b>Q3FY24</b>	<b>Q3FY23</b>	<b>YoY (%)</b>	<b>Q2FY24</b>	<b>QoQ (%)</b>	<b>9MFY24</b>	<b>9MFY23</b>	<b>YoY (%)</b>
Revenue (Rs mn)	3,721	3,360	10.7	3,826	(2.7)	4,010	4,016	(0.1)
EBITDA margin (%)	13.1	13.8	(72bps)	13.3	(22bps)	8.8	11.4	(258bps)

Source: Company, BOBCAPS Research

## Earnings call highlights

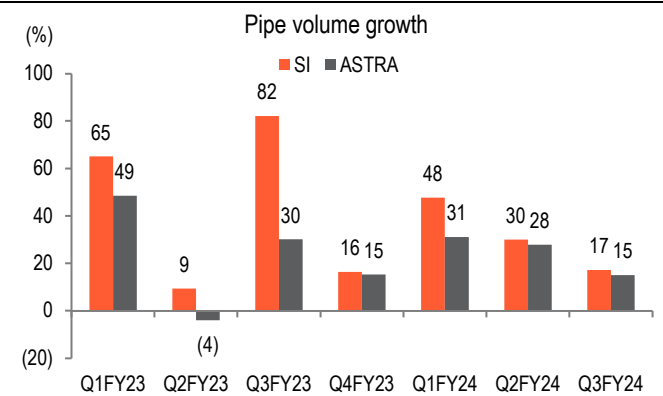
- **Polymer price outlook:** Management believes that polymer prices are near the bottom and thus expects pipe inventory in the channel to have normalised.
- **Pipes:** EBITDA in the pipe business grew 11% YoY in Q3FY24 driven by higher volumes (+15%). However, EBITDA per unit fell 9% QoQ to Rs 30.4/kg due to the impact of MTM inventory loss (Rs 200mn). ASTRA has maintained its pipe volume growth guidance of 20%+ for FY24. Over the medium term, volumes are guided to clock a 15% CAGR with an EBITDA margin of 16-17% (vs. 16-18% earlier).
- **Resinova:** EBITDA grew 15% YoY in Q3 driven by a 17% rise in revenue, with a relatively stable operating margin of 16.8%. The company is aiming for revenue growth of 15-20% YoY with an EBITDA margin of 14-15% (15%+ earlier) over the medium term. The full benefit of startup of the Dahej unit, which commenced operations in Sep'23, is expected to become visible from Q1FY25 due to the liquidation of old inventories.
- **SEAL IT:** Revenue grew 8% YoY in Q3, but the division reported a negative EBITDA margin of 2.3% due to a steep correction in silicon prices. Management expects margins to improve to 8% in Q4FY24 and rise to double digits in FY25.
- **Paints:** Revenue declined (-10% YoY) for the third consecutive quarter due to corrective measures taken by the new management. However, management expects the paints division performance to improve from Q1FY25 onwards as it plans to launch products under the ASTRAL brand in a few states and aims to gradually widen its presence to a pan-India level over the next 2-3 years. The company acquired 80% stake in the paints business during the quarter.
- **Bathware:** The division reported negative EBITDA of Rs 40mn on revenue of Rs 200mn in Q3. Management expects to clock bathware revenue of more than Rs 1bn in FY25 and plans to gradually expand its operations for the next 5-6 years.
- **Capex:** Management maintained its capex guidance of Rs 2.5bn for FY25. Pipe capacity has increased from 310ktpa in Q2FY24 to 320ktpa in Q3FY24. The company commenced initial operations at its 22ktpa greenfield plant in Guwahati in Jan'24. It further plans to start production at its greenfield pipe facilities in Hyderabad (40ktpa in phase I) by Q2FY25 and at Kanpur (25-30ktpa capacity in phase I) by Q1FY26 at a cost of Rs 1.3bn-1.5bn (vs. Rs 1bn earlier) and Rs 1.2bn-1.25bn respectively.

**Fig 2 – ASTRA posted strong pipe volume growth of 15% YoY and a 4Y CAGR of 13.3% in Q3FY24...**



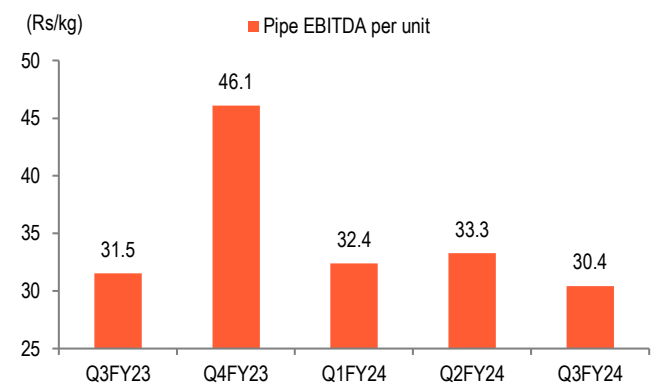
Source: Company, BOBCAPS Research

**Fig 3 – ...but lagged SI for the eighth consecutive quarter**



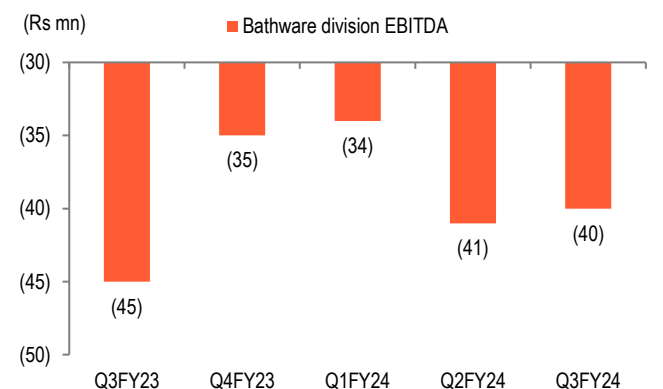
Source: Company, BOBCAPS Research

**Fig 4 – Pipe EBITDA per unit fell 8.6% QoQ in Q3FY24 on weak realisations and MTM inventory loss**



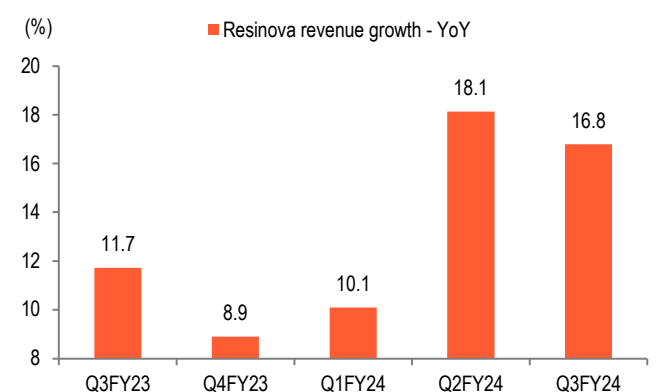
Source: Company, BOBCAPS Research

**Fig 5 – Bathware division once again posted operating losses due to small size of operations**



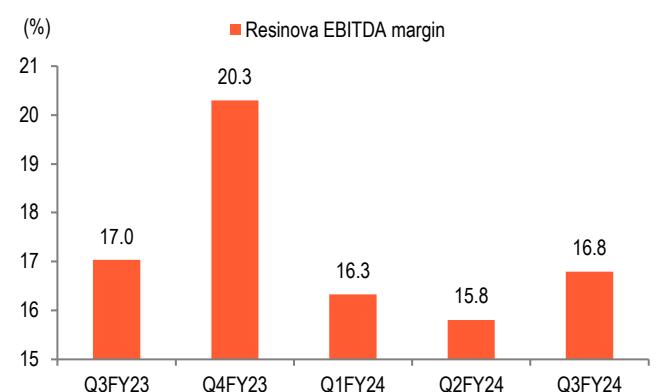
Source: Company, BOBCAPS Research

**Fig 6 – Resinova reported strong revenue growth of 16.8% YoY in Q3FY24...**



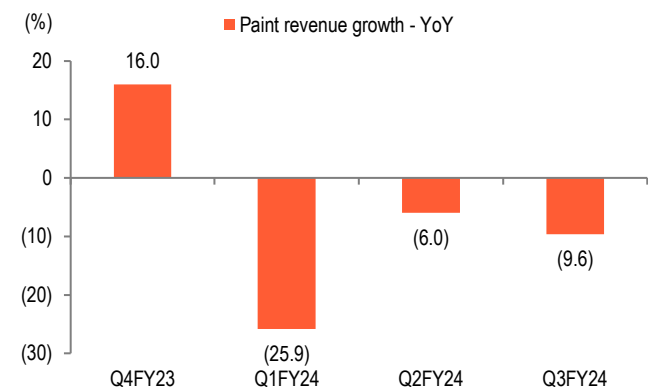
Source: Company, BOBCAPS Research

**Fig 7 – ...with relatively stable EBITDA margin YoY**



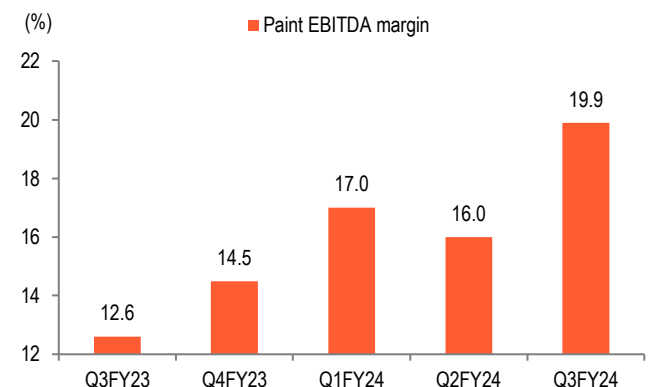
Source: Company, BOBCAPS Research

**Fig 8 – Paint business posted negative revenue growth for the third consecutive quarter...**



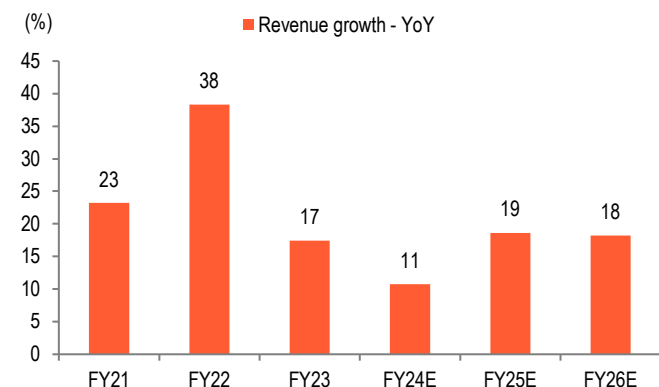
Source: Company, BOBCAPS Research

**Fig 9 – ...but segmental EBITDA margin improved sharply in Q3FY24**



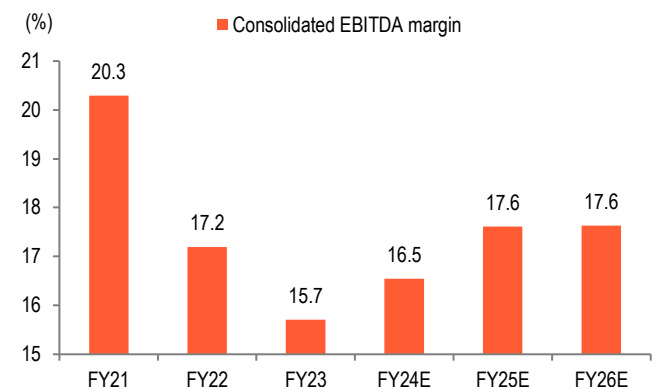
Source: Company, BOBCAPS Research

**Fig 10 – ASTRA's revenue forecast to grow at a healthy 15.8% CAGR over FY23-FY26E**



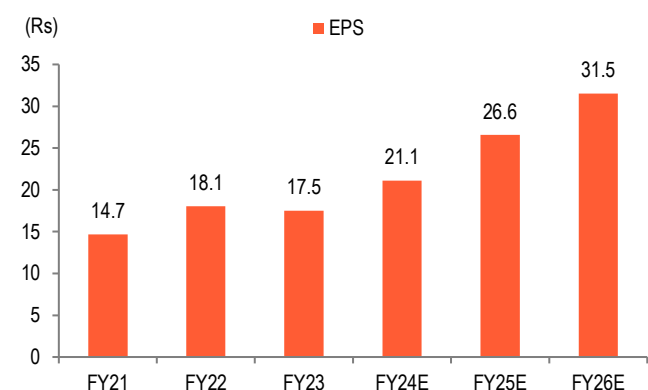
Source: Company, BOBCAPS Research

**Fig 11 – Consolidated EBITDA margin forecast to improve from 15.7% in FY23 to 17.6% in FY26E**



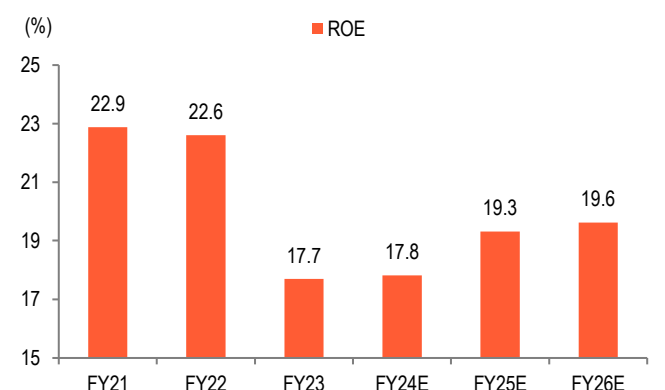
Source: Company, BOBCAPS Research

**Fig 12 – EPS projected to grow sharply at 21.7% CAGR over FY23-FY26E**



Source: Company, BOBCAPS Research

**Fig 13 – ROE also likely to remain healthy over the medium term**



Source: Company, BOBCAPS Research

## Valuation methodology

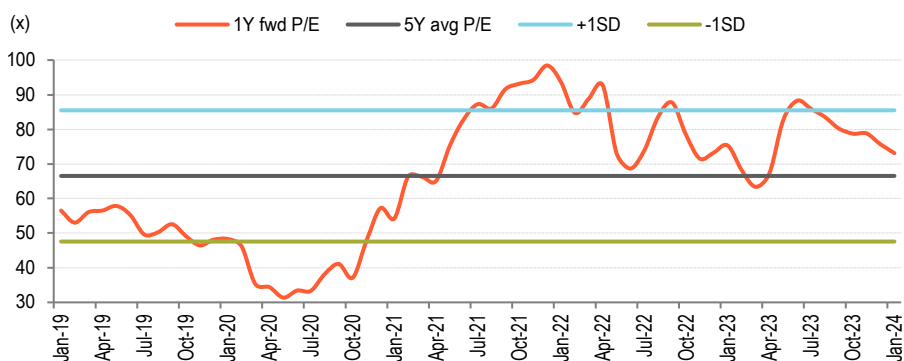
The stock is trading at 73.1x on one-year forward P/E vs. the 5Y average of 66.5x. We maintain our HOLD rating with an unchanged TP of Rs 2,000 due to expensive valuations. We have slightly pruned our EPS estimate for FY24 by 2% due to the weak Q3FY24 result but largely maintained our forecasts for FY25/FY26. Our target P/E multiple remains unchanged at 70x on Sep'25E EPS – 5% premium to its 5Y average multiple of 66.5x. For details, see our Sector Report of 17 Jan: [Strong foundations](#).

**Fig 14 – Revised estimates**

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	57.1	67.8	80.1	56.1	65.6	77.5	1.9	3.2	3.4
EBITDA	9.5	11.9	14.1	9.5	11.7	13.8	(0.5)	2.0	2.1
EBITDA margin	16.5	17.6	17.6	16.9	17.8	17.9	(40bps)	(20bps)	(22bps)
Adjusted PAT	5.7	7.1	8.5	5.8	7.1	8.4	(1.9)	0.0	0.5
EPS (Rs)	21.1	26.6	31.5	21.5	26.6	31.4	(1.9)	0.0	0.5

Source: BOBCAPS Research

**Fig 15 – Trading at 73.1x 1Y forward P/E vs. 5Y average of 66.5x**



Source: Bloomberg, BOBCAPS Research

**Fig 16 – Key assumptions**

(%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue Mix</b>						
Pipe	76	77	76	72	72	72
Adhesives	24	23	24	23	22	22
Paints	-	-	4	3	4	4
Bathware	-	-	0	1	2	3
<b>Operating Metrics</b>						
Pipe volume growth	3	9	19	23	15	15
Adhesive revenue growth	28	36	14	13	14	14
Paints revenue growth	-	-	-	(8)	22	20
Bathware revenue growth	-	-	-	250	95	53
<b>EBITDA margin</b>						
Pipe	21.9	18.6	16.8	18.0	18.0	18.0
Adhesives	15.0	12.5	14.1	14.2	17.8	17.8
Paints	-	-	14.0	16.8	15.0	15.0
Bathware	-	-	(75.0)	(18.2)	(0.1)	4.6

Source: Company, BOBCAPS Research

## Key risks

- Better-than-expected recovery in India's real estate sector and a sharp turnaround in the company's new paint & sanitaryware ventures would be key upside risks to our estimates.
- Market share loss in the pipe business would be a key downside risk.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	681	600	SELL
Astral	ASTRA IN	6.1	1,876	2,000	HOLD
Century Plyboards	CPBI IN	2.1	785	800	HOLD
Cera Sanitaryware	CRS IN	1.3	8,224	8,100	HOLD
Finolex Industries	FNXP IN	1.6	215	230	HOLD
Greenpanel Industries	GREENP IN	0.6	408	400	HOLD
Greenply Industries	MTLM IN	0.4	246	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	465	700	BUY
Kajaria Ceramics	KJC IN	2.6	1,351	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	699	800	HOLD
Somany Ceramics	SOMC IN	0.3	685	900	BUY
Supreme Industries	SI IN	6.5	4,210	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>43,940</b>	<b>51,585</b>	<b>57,130</b>	<b>67,759</b>	<b>80,100</b>
EBITDA	7,554	8,100	9,452	11,930	14,123
Depreciation	1,269	1,781	1,961	2,361	2,761
EBIT	6,285	6,319	7,491	9,569	11,361
Net interest inc./(exp.)	(129)	(400)	(276)	(276)	(276)
Other inc./(exp.)	349	267	423	256	256
Exceptional items	1	1	0	0	0
EBT	6,504	6,185	7,638	9,549	11,341
Income taxes	1,581	1,557	1,962	2,404	2,855
Extraordinary items	0	(112)	0	0	0
Min. int./Inc. from assoc.	(85)	(44)	0	0	0
<b>Reported net profit</b>	<b>4,838</b>	<b>4,696</b>	<b>5,676</b>	<b>7,146</b>	<b>8,487</b>
Adjustments	1	14	0	0	0
<b>Adjusted net profit</b>	<b>4,839</b>	<b>4,710</b>	<b>5,676</b>	<b>7,146</b>	<b>8,487</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,484	8,000	8,883	10,536	12,455
Other current liabilities	1,384	4,854	1,531	1,531	1,531
Provisions	18	26	29	34	40
Debt funds	851	773	0	0	0
Other liabilities	491	489	489	489	489
Equity capital	201	269	269	269	269
Reserves & surplus	23,165	26,843	31,384	37,100	43,890
Shareholders' fund	23,644	29,589	34,130	39,846	46,636
<b>Total liab. and equities</b>	<b>33,872</b>	<b>43,731</b>	<b>45,062</b>	<b>52,436</b>	<b>61,151</b>
Cash and cash eq.	6,418	6,821	4,886	6,709	9,480
Accounts receivables	2,691	3,545	3,926	4,657	5,505
Inventories	7,334	8,746	8,219	9,703	11,749
Other current assets	1,008	3,380	3,753	4,451	5,262
Investments	0	0	0	0	0
Net fixed assets	11,572	13,923	16,962	19,601	21,839
CWIP	1,232	1,261	1,261	1,261	1,261
Intangible assets	3,388	5,582	5,582	5,582	5,582
Deferred tax assets, net	3	110	110	110	110
Other assets	226	363	363	363	363
<b>Total assets</b>	<b>33,872</b>	<b>43,731</b>	<b>45,062</b>	<b>52,436</b>	<b>61,151</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>5,318</b>	<b>5,768</b>	<b>4,826</b>	<b>8,272</b>	<b>9,488</b>
Capital expenditures	(3,634)	(6,355)	(5,000)	(5,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	348	248	423	256	256
<b>Cash flow from investing</b>	<b>(3,286)</b>	<b>(6,107)</b>	<b>(4,577)</b>	<b>(4,744)</b>	<b>(4,744)</b>
Equities issued/Others	8	13	0	0	0
Debt raised/repaid	185	(78)	(773)	0	0
Interest expenses	(129)	(400)	(276)	(276)	(276)
Dividends paid	(804)	(942)	(1,135)	(1,429)	(1,697)
Other financing cash flows	366	2,149	0	0	0
<b>Cash flow from financing</b>	<b>(374)</b>	<b>742</b>	<b>(2,184)</b>	<b>(1,705)</b>	<b>(1,973)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,658</b>	<b>403</b>	<b>(1,935)</b>	<b>1,823</b>	<b>2,771</b>
<b>Closing cash &amp; cash eq.</b>	<b>6,418</b>	<b>6,821</b>	<b>4,886</b>	<b>6,709</b>	<b>9,480</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	18.1	17.5	21.1	26.6	31.5
Adjusted EPS	18.1	17.5	21.1	26.6	31.5
Dividend per share	3.0	3.5	4.2	5.3	6.3
Book value per share	87.2	100.8	117.7	138.9	164.2

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	11.5	9.9	8.9	7.5	6.4
EV/EBITDA	67.1	62.9	54.0	42.8	36.2
Adjusted P/E	103.9	107.2	88.9	70.6	59.5
P/BV	21.5	18.6	15.9	13.5	11.4

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.4	76.2	74.3	74.8	74.8
Interest burden (PBT/EBIT)	103.5	97.9	102.0	99.8	99.8
EBIT margin (EBIT/Revenue)	14.3	12.2	13.1	14.1	14.2
Asset turnover (Rev./Avg TA)	129.7	118.0	126.8	129.2	131.0
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.4	1.4	1.4
<b>Adjusted ROAE</b>	<b>22.6</b>	<b>17.7</b>	<b>17.8</b>	<b>19.3</b>	<b>19.6</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	38.3	17.4	10.8	18.6	18.2
EBITDA	17.2	7.2	16.7	26.2	18.4
Adjusted EPS	23.1	(3.0)	20.5	25.9	18.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.2	15.7	16.5	17.6	17.6
EBIT margin	14.3	12.2	13.1	14.1	14.2
Adjusted profit margin	11.0	9.1	9.9	10.5	10.6
Adjusted ROAE	22.6	17.7	17.8	19.3	19.6
ROCE	27.1	21.7	23.2	24.7	24.9
<b>Working capital days (days)</b>					
Receivables	22	25	25	25	25
Inventory	61	62	53	52	54
Payables	62	57	57	57	57
<b>Ratios (x)</b>					
Gross asset turnover	2.6	2.6	2.3	2.3	2.3
Current ratio	1.9	1.7	2.0	2.1	2.3
Net interest coverage ratio	48.7	15.8	27.1	34.7	41.2
<b>Adjusted debt/equity</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>

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



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Trade Name: **www.barodaetrade.com**

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

**BUY** – Expected return >+15%

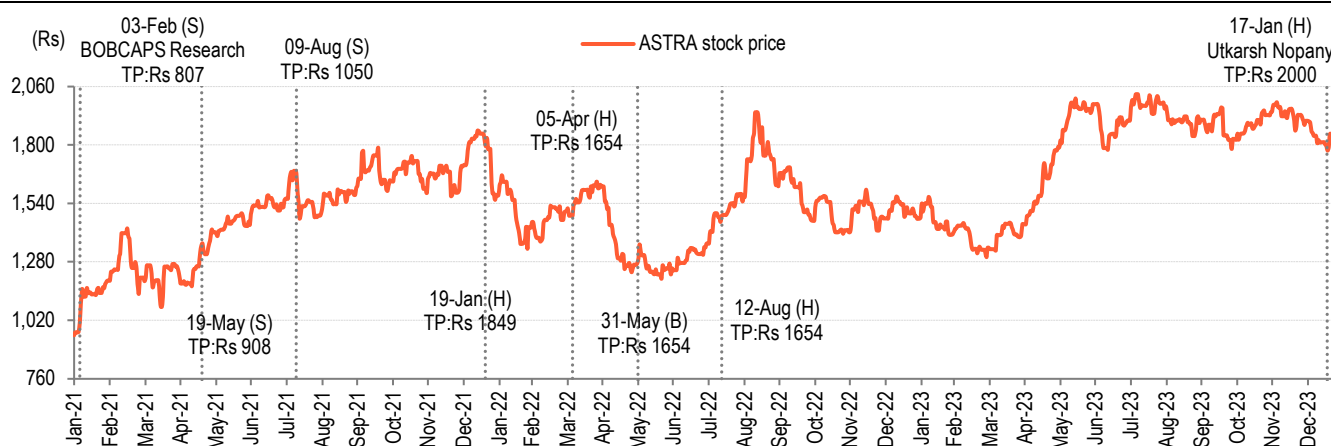
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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



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