

**SELL**

TP: Rs 1,210 | ▼ 33%

**ASTRAL**

Plastic Products

19 May 2021

## Good performance but valuations lofty – SELL

Astral's (ASTRA) Q4FY21 consolidated revenue grew 79% YoY, with 80%/78% growth in pipes/adhesives. EBITDA margin expanded 470bps YoY to 22.6% led by gains across segments, supporting robust EBITDA/PBT growth of 126%/186% YoY. Management has a positive medium-term demand outlook and expects sustainable margins of 15-17% in both segments. We raise FY22-FY23 PAT by ~5% each and revise our Mar'22 TP to Rs 1,210 (vs. Rs 1,076), set at 48x P/E (vs. 45x) – in line with the 5Y average. Valuations remain lofty at 72x FY23E. SELL.

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**Strong revenue growth across businesses:** ASTRA's Q4 consolidated revenue grew 79% YoY to Rs 11.3bn due to a soft base on account of the lockdown last year. Standalone revenue in PVC pipes increased 80% YoY (volumes up 26%) and the adhesives business grew 78% as benefits from a change in distribution model kicked in. Per management, demand was healthy until the pandemic resurfaced, with single-digit volume growth in pipes during April. The company is hopeful of better demand in pipes as the market reopens and higher growth in adhesives as its distribution restructuring is complete.

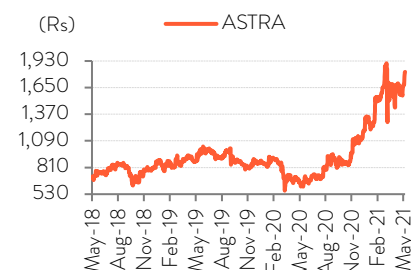
**Significant margin gains:** EBITDA margin increased 470bps YoY to 22.6% in Q4, aided by a superior showing in both segments, which fuelled EBITDA/PBT growth of 126%/186% YoY. Pipe segment margins increased 435bps YoY to 23.5% due to inventory gains of ~Rs 300mn and a better product mix. Adhesives saw 540bps expansion to 17.7% on operating leverage. Management guided that current margins in pipes are unsustainable and maintained its target of 15-16% levels in the medium term and 16-17% in adhesives.

**Retain SELL on rich valuations:** ASTRA's results have beaten our estimates, leading us to raise FY22/FY23 PAT forecasts by ~5% each. Though we like the business, the stock is trading at high valuations of 72x FY23E EPS. SELL.

Ticker/Price	ASTRA IN/Rs 1,816
Market cap	US\$ 5.0bn
Shares o/s	201mn
3M ADV	US\$ 8.5mn
52wk high/low	Rs 1,980/Rs 578
Promoter/FPI/DII	56%/21%/24%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	25,073	25,779	31,763	36,042	42,945
EBITDA (Rs mn)	3,853	4,441	6,445	6,463	7,814
Adj. net profit (Rs mn)	1,992	2,498	4,059	4,064	5,052
Adj. EPS (Rs)	9.9	12.4	20.2	20.2	25.2
Adj. EPS growth (%)	17.4	25.4	62.5	0.1	24.3
Adj. ROAE (%)	17.4	18.0	23.9	20.3	22.6
Adj. P/E (x)	183.1	146.0	89.9	89.8	72.2
EV/EBITDA (x)	95.1	82.5	56.8	56.2	46.1

Source: Company, BOBCAPS Research | P – Provisional

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Total revenues</b>	<b>11,278</b>	<b>6,289</b>	<b>79.3</b>	<b>8,975</b>	<b>25.7</b>	<b>31,763</b>	<b>25,779</b>	<b>23.2</b>
Total raw material consumed	6,869	3,902	76.0	5,562	23.5	19,689	15,957	23.4
% of sales	60.9	62.0	(114bps)	62.0	(107bps)	62.0	61.9	9bps
Employee exps	475	417	13.9	524	(9.4)	1,910	1,752	9.0
% of sales	4.2	6.6	(242bps)	5.8	(163bps)	6.0	6.8	(78bps)
Other exp	1,388	844	64.5	969	43.2	3,719	3,641	2.1
% of sales	12.3	13.4	(111bps)	10.8	151bps	11.7	14.1	(242bps)
Total expenditure	8,732	5,163	69.1	7,055	23.8	25,318	21,350	18.6
% of sales	77.4	82.1	(467bps)	78.6	(118bps)	79.7	82.8	(311bps)
<b>EBIDTA</b>	<b>2,546</b>	<b>1,126</b>	<b>126.1</b>	<b>1,920</b>	<b>32.6</b>	<b>6,445</b>	<b>4,429</b>	<b>45.5</b>
% of sales	22.6	17.9	467bps	21.4	118bps	20.3	17.2	311bps
Depreciation	292	289	1.0	300.0	(2.7)	1,165	1,079	8.0
Other income	50	1	4,900.0	61.0	(18.0)	251	121	107.4
Interest cost	11	37	(70.3)	27.0	(59.3)	116	211	(45.0)
<b>PBT</b>	<b>2,293</b>	<b>801</b>	<b>186.3</b>	<b>1,654</b>	<b>38.6</b>	<b>5,415</b>	<b>3,260</b>	<b>66.1</b>
Taxes	527	135	290.4	413	27.6	1,248	565	120.9
Effective tax rate (%)	23.0	16.9	613bps	25	(199bps)	23	17.3	572bps
<b>RPAT before extraordinaries</b>	<b>1,766</b>	<b>666</b>	<b>165.2</b>	<b>1,241</b>	<b>42.3</b>	<b>4,167</b>	<b>2,695</b>	<b>54.6</b>
Less: forex loss/(gain)	1	144.	(99.3)	(10.0)	(110.0)	15	183	(91.8)
Less: minority int	(15.)	(5.)	200.0	(7.0)	114.3	(38)	(17)	123.5
Less: Loss from JV	4	6.	(33.3)	12.0	(66.7)	70	16.	337.5
APAT	1,747	655	166.7	1,222	43.0	4,059	2,662	52.5
<b>RPAT</b>	<b>1,746</b>	<b>511</b>	<b>241.7</b>	<b>1,232</b>	<b>41.7</b>	<b>4,044</b>	<b>2,479</b>	<b>63.1</b>

Source: Company, BOBCAPS Research

**FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE**

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Plastics	8,864	4,933	79.7	6,727	32	24,187	19,838	21.9
Adhesives	2,414	1,356	78.0	2,248	7	7,576	5,941	27.5
Net Sales	11,278	6,289	79.3	8,975	26	31,763	25,779	23.2
<b>EBIT</b>								
Plastics	1,802	699	157.8	1,290	40	4,194	2,672	57.0
Adhesives	453	153	196.1	358	27	1,145	736	55.6
Total	2,255	852	164.7	1,648	37	5,339	3,408	56.7
<b>EBIT Margin (%)</b>								
Plastics	20.3	14.2	616bps	19.2	115bps	17.3	13.5	387bps
Adhesives	18.8	11.3	748bps	15.9	284bps	15.1	12.4	273bps

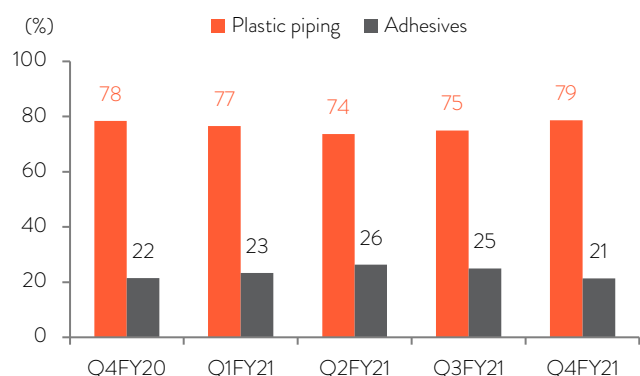
Source: BOBCAPS Research, Company

**FIG 3 – STANDALONE QUARTERLY PERFORMANCE**

(Rs Mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Total revenues</b>	<b>9,097</b>	<b>5,057</b>	<b>79.9</b>	<b>6,931</b>	<b>31.3</b>	<b>24,863</b>	<b>20,428</b>	<b>21.7</b>
Total raw material consumed	5,559	3,221	72.6	4,321	28.7	15,546	12,977	19.8
% of sales	61.1	63.7	(259bps)	62.3	(124bps)	62.5	63.5	(100bps)
Employee exps	244	220	10.9	280	(12.9)	1,043	977	6.8
% of sales	2.7	4.4	(167bps)	4.0	(136bps)	4.2	4.8	(59bps)
Other exp	1,157	648	78.5	745	55.3	2,929	2,777	5.5
% of sales	12.7	12.8	(10bps)	10.7	197bps)	11.8	13.6	(181bps)
Total expenditure	6,960	4,089	70.2	5,346	30.2	19,518	16,731	16.7
% of sales	76.5	80.9	(435bps)	77.1	(62bps)	78.5	81.9	(340bps)
<b>EBIDTA</b>	<b>2,137</b>	<b>968</b>	<b>120.8</b>	<b>1,585</b>	<b>34.8</b>	<b>5,345</b>	<b>3,697</b>	<b>44.6</b>
% of sales	23.5	19.1	435bps	22.9	62bps	21.5	18.1	340bps
Depreciation	245	242	1.2	242	1.2	962	899	7.0
Other income	41	0	-	45	(8.9)	207	109	89.9
Interest cost	6	35	(82.9)	15	(60.0)	76	170	(55.3)
<b>PBT</b>	<b>1,927</b>	<b>691</b>	<b>178.9</b>	<b>1,373</b>	<b>40.3</b>	<b>4,514</b>	<b>2,737</b>	<b>64.9</b>
Taxes	471	138	241.3	351	34.2	1,122	537	108.9
Effective tax rate (%)	24.4	20	447bps	25.6	(112bps)	24.9	19.6	524bps
<b>APAT</b>	<b>1,456</b>	<b>553</b>	<b>163.3</b>	<b>1,022</b>	<b>42.5</b>	<b>3,392</b>	<b>2,200</b>	<b>54.2</b>
extraordinary items	(53)	(25)	112.0	0.0	NA	(123)	(25)	392.0
Forex	0.0	(135)	NM	18	NM	0.0	(167)	NM
<b>RPAT</b>	<b>1,403</b>	<b>393</b>	<b>257</b>	<b>1,040</b>	<b>34.9</b>	<b>3,269</b>	<b>2,008</b>	<b>62.8</b>

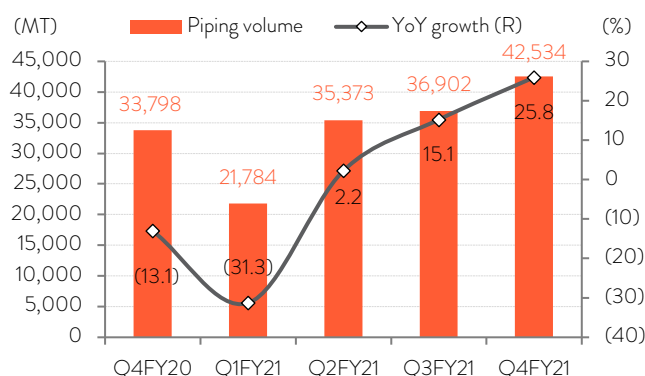
Source: Company, BOBCAPS Research

**FIG 4 – CONSOLIDATED REVENUE MIX**



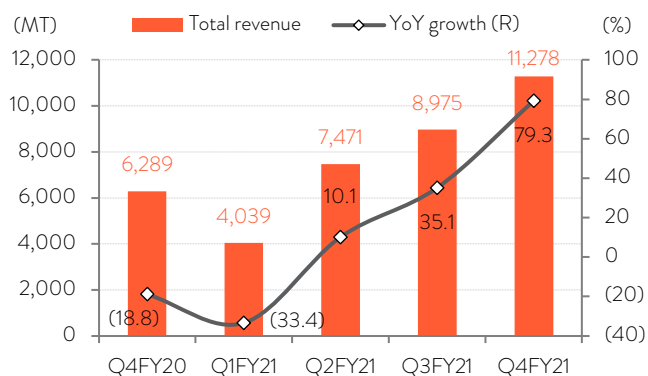
Source: Company, BOBCAPS Research

**FIG 5 – PIPING VOLUME GROWTH**



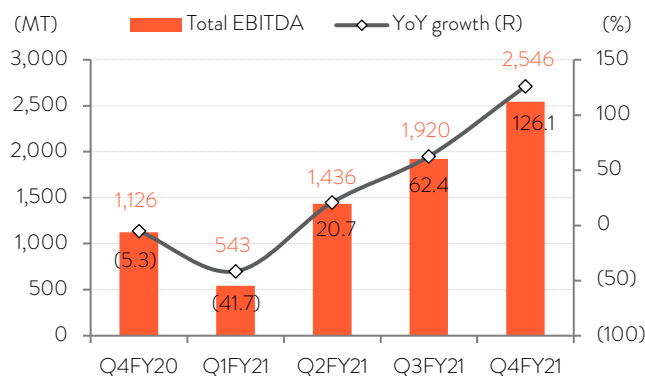
Source: Company, BOBCAPS Research

**FIG 6 – CONSOLIDATED REVENUE GROWTH**



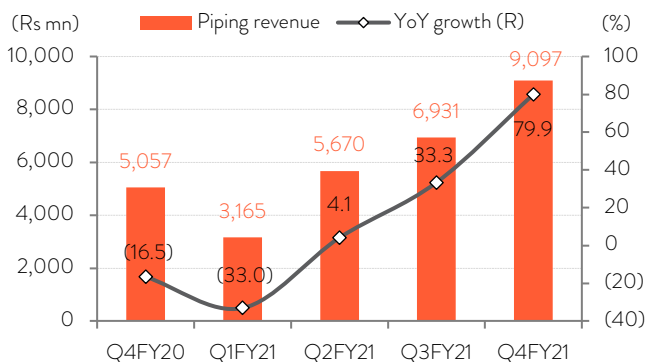
Source: Company, BOBCAPS Research

**FIG 7 – CONSOLIDATED EBITDA GROWTH**



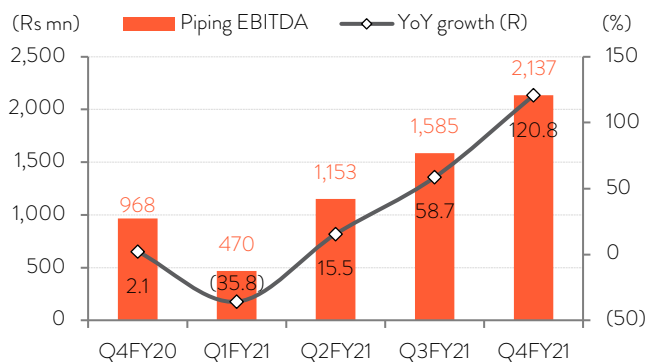
Source: Company, BOBCAPS Research

**FIG 8 – STANDALONE PIPING REVENUE GROWTH**



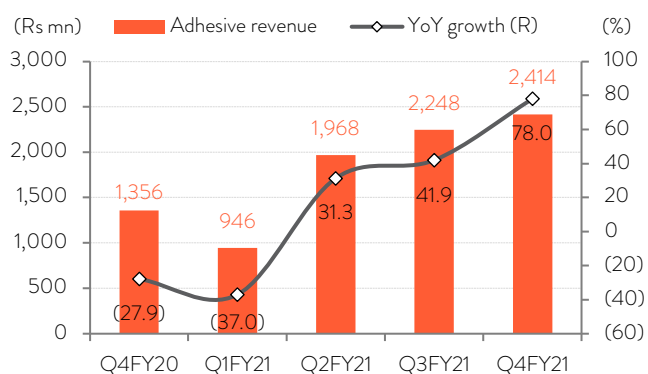
Source: Company, BOBCAPS Research

**FIG 9 – STANDALONE PIPING EBITDA GROWTH**



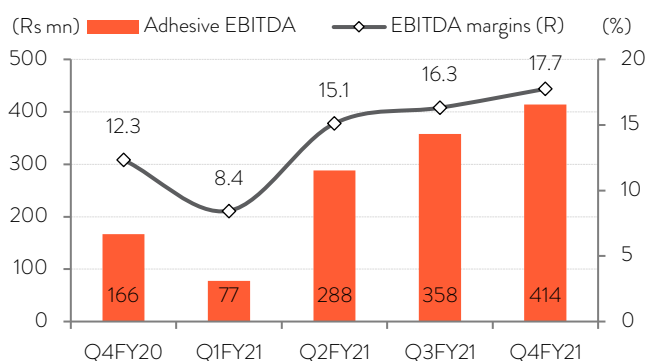
Source: Company, BOBCAPS Research

**FIG 10 – STANDALONE ADHESIVES REVENUE GROWTH**



Source: Company, BOBCAPS Research

**FIG 11 – STANDALONE ADHESIVES EBITDA MARGIN**



Source: Company, BOBCAPS Research

## Earnings call highlights

- ASTRA saw good demand for both pipes and adhesives during Q4. In April, the pipe business posted single-digit volume growth. Adhesives saw a healthy uptick during the month and management believes this segment will post high growth in FY22 despite the pandemic due to the revamped distribution model.
- New product launches in the pipe and adhesive segments are on the anvil for next quarter.
- The company is looking to at least double its turnover over the next five years and to maintain EBITDA margins of 15-17% in both segments.
- ASTRA expects the new pipe facility in Odisha to become operational by Q3FY22. With this, the company will save significantly on transportation cost, raising its competitiveness in India's eastern markets.
- Management will look at acquisitions in a similar space and use cash reserves in case any such opportunity arises.
- The company is net-debt free and has surplus cash of Rs 4.1bn as of 31 Mar 2021.
- Net working capital reduced by 14 days to 27 in FY21. Management believes this level can be maintained give or take 5 days.
- The company has decided to close the loss-making JV in Kenya and has begun the process of selling off its assets.

## Piping segment

- Rising PVC prices led to some inventory gains during Q4, but these were limited given that a bulk of revenue comes from the CPVC segment. Management estimates that inventory gains stood at roughly Rs 300mn for the quarter and Rs 650mn-700mn for FY21.
- In Q4, a majority of the sales came from CPVC, resulting in better margins and realisations.
- The price difference between CPVC and PVC has narrowed due to a rapid rise in the latter's prices, resulting in the shift towards CPVC.
- PVC prices have now started to fall and this may impact margins, albeit partly offset by the 5-8% rise in CPVC prices.
- ASTRA has market share of ~4% in PVC and 22-23% in CPVC.
- Per management, it gained market share in pipes in FY21 as the overall resin market declined by 15-17% whereas the company grew by ~3%.

- Management believes this business can have sustainable volume growth of ~15% over the next few years, with operating margin at 15-16% for the long term.
- ASTRA expects demand migration from unorganised to organised players to continue and the second wave of the pandemic to take the process further.
- The company has 33,000-34,000 touch points across the country in the piping segment.
- The valve project and aluminium CPVC pipe capacities will be ready soon. These two products carry export potential.

### **Adhesive segment**

- Channel correction in FY20 is now reaping results and the company expects adhesives to continue seeing robust growth.
- Management believes current growth in adhesives is sustainable despite the pandemic.
- Gross margin was affected adversely in Q4 as raw material prices increased. However, this has been passed on with a lag and ASTRA expects margins to improve. Management believes this segment can achieve a 16-17% operating margin over the next three years.
- ASTRA plans to launch new products in coming months and also to enter the water-proofing segment as this has high growth opportunities.
- The company has 130,000-140,000 touch points across the country in adhesives.

## 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 foray into adhesives further boosts growth prospects.

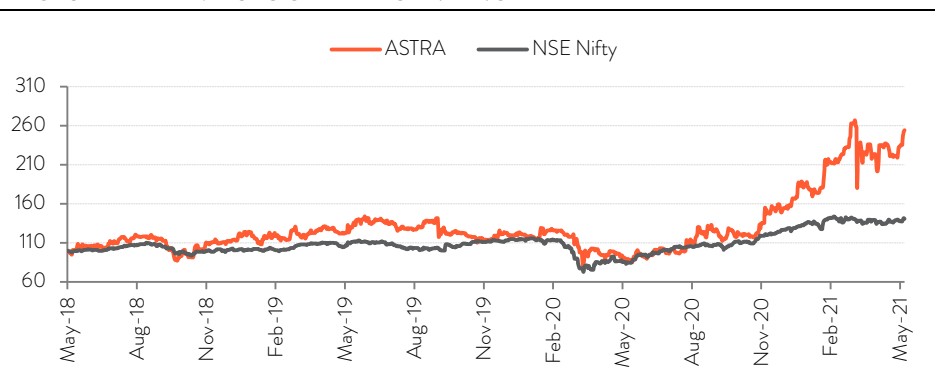
Following the better-than-expected performance in Q4FY21, we increase FY22-FY23 PAT estimates by 5% each. Though we like ASTRA for its strong balance sheet and comprehensive product portfolio, we believe current valuations at 72x FY23E P/E are lofty. Maintain SELL with a revised Mar’22 target price of Rs 1,210 (earlier Rs 1,076), which is set at a higher 48x FY23E P/E multiple (earlier 45x), in line with the stock’s five-year average.

**FIG 12 – REVISED ESTIMATES**

(Rs mn)	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	34,263	40,616	36,042	42,945	5.2	5.7
EBITDA	6,168	7,412	6,463	7,814	4.8	5.4
PAT	3,862	4,792	4,064	5,052	5.2	5.4

Source: BOBCAPS Research

**FIG 13 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## 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)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>25,073</b>	<b>25,779</b>	<b>31,763</b>	<b>36,042</b>	<b>42,945</b>
EBITDA	3,853	4,441	6,445	6,463	7,814
Depreciation	(814)	(1,079)	(1,165)	(1,293)	(1,419)
EBIT	3,039	3,362	5,280	5,170	6,395
Net interest income/(expenses)	(320)	(394)	(116)	(43)	(15)
Other income/(expenses)	97	115	251	286	373
Exceptional items	0	0	0	0	0
EBT	2,816	3,083	5,415	5,413	6,753
Income taxes	(808)	(568)	(1,248)	(1,299)	(1,621)
Extraordinary items	(34)	(19)	(15)	0	0
Min. int./Inc. from associates	(15)	(17)	(108)	(50)	(80)
<b>Reported net profit</b>	<b>1,958</b>	<b>2,479</b>	<b>4,044</b>	<b>4,064</b>	<b>5,052</b>
Adjustments	34	19	15	0	0
<b>Adjusted net profit</b>	<b>1,992</b>	<b>2,498</b>	<b>4,059</b>	<b>4,064</b>	<b>5,052</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	3,897	4,754	5,172	5,727	6,824
Other current liabilities	758	563	1,250	889	1,059
Provisions	124	92	69	108	129
Debt funds	2,753	1,856	666	200	100
Equity capital	120	151	201	201	201
Reserves & surplus	12,657	14,878	18,757	20,854	23,461
Shareholders' fund	12,777	15,029	18,958	21,055	23,662
<b>Total liabilities and equities</b>	<b>20,459</b>	<b>22,462</b>	<b>26,327</b>	<b>28,241</b>	<b>32,116</b>
Cash and cash eq.	981	1,301	4,760	4,553	6,398
Accounts receivables	3,391	2,278	2,767	3,259	3,883
Inventories	3,958	5,404	4,721	5,925	7,060
Other current assets	798	913	769	987	1,177
Investments	2	2	0	0	0
Net fixed assets	10,634	12,194	12,850	13,057	13,139
CWIP	808	444	566	566	566
Intangible assets	421	355	295	295	295
Deferred tax assets, net	(533)	(429)	(401)	(401)	(401)
<b>Total assets</b>	<b>20,459</b>	<b>22,462</b>	<b>26,327</b>	<b>28,241</b>	<b>32,116</b>

Source: Company, BOBCAPS Research



### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	2,772	3,558	5,209	5,356	6,471
Interest expenses	320	394	116	43	15
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(421)	181	1,420	(1,681)	(660)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>2,671</b>	<b>4,133</b>	<b>6,745</b>	<b>3,719</b>	<b>5,826</b>
Capital expenditures	(3,438)	(2,085)	(1,717)	(1,500)	(1,500)
Change in investments	(2)	(1)	2	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(3,440)</b>	<b>(2,085)</b>	<b>(1,715)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Equities issued/Others	25	0	0	0	0
Debt raised/repaid	862	(897)	(1,190)	(466)	(100)
Interest expenses	(320)	(394)	(116)	(43)	(15)
Dividends paid	(251)	(240)	(151)	(1,967)	(2,445)
Other financing cash flows	998	(198)	(114)	50	80
<b>Cash flow from financing</b>	<b>1,314</b>	<b>(1,729)</b>	<b>(1,571)</b>	<b>(2,426)</b>	<b>(2,480)</b>
<b>Changes in cash and cash eq.</b>	<b>545</b>	<b>320</b>	<b>3,459</b>	<b>(207)</b>	<b>1,846</b>
<b>Closing cash and cash eq.</b>	<b>981</b>	<b>1,301</b>	<b>4,760</b>	<b>4,553</b>	<b>6,398</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	9.7	12.3	20.1	20.2	25.2
Adjusted EPS	9.9	12.4	20.2	20.2	25.2
Dividend per share	1.0	1.0	1.0	8.1	10.1
Book value per share	63.6	74.8	94.4	104.8	117.8

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	14.6	14.2	11.5	10.1	8.4
EV/EBITDA	95.1	82.5	56.8	56.2	46.1
Adjusted P/E	183.1	146.0	89.9	89.8	72.2
P/BV	28.6	24.3	19.2	17.3	15.4

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	70.7	81.0	75.0	75.1	74.8
Interest burden (PBT/EBIT)	92.7	91.7	102.6	104.7	105.6
EBIT margin (EBIT/Revenue)	12.1	13.0	16.6	14.3	14.9
Asset turnover (Revenue/Avg TA)	136.0	120.1	130.2	132.1	142.3
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.4	1.3
Adjusted ROAE	17.4	18.0	23.9	20.3	22.6

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	19.1	2.8	23.2	13.5	19.2
EBITDA	21.6	15.3	45.1	0.3	20.9
Adjusted EPS	17.4	25.4	62.5	0.1	24.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.4	17.2	20.3	17.9	18.2
EBIT margin	12.1	13.0	16.6	14.3	14.9
Adjusted profit margin	7.9	9.7	12.8	11.3	11.8
Adjusted ROAE	17.4	18.0	23.9	20.3	22.6
ROCE	15.5	16.8	22.0	19.0	21.3
<b>Working capital days (days)</b>					
Receivables	47	40	29	31	30
Inventory	83	107	94	84	86
Payables	64	74	72	67	65
<b>Ratios (x)</b>					
Gross asset turnover	2.2	1.8	2.0	2.0	2.2
Current ratio	1.5	1.6	1.9	2.1	2.3
Net interest coverage ratio	9.5	8.5	45.5	119.4	426.3
Adjusted debt/equity	0.1	0.0	(0.2)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

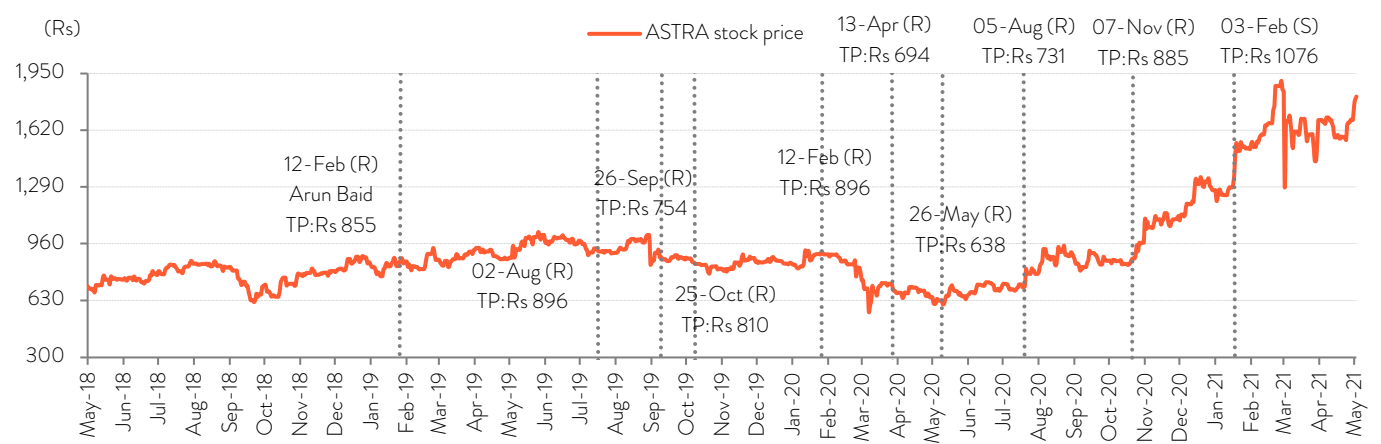
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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, A – Add, R – Reduce, S – Sell

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