

BUY

TP: Rs 2,205 | ▲ 30%

ASTRAL

| Plastic Products

| 31 May 2022

Emerging as a one-stop building materials player; raise to BUY

- Consolidated Q4 revenue grew 23% YoY with pipe/adhesive segments up 22%/27%; pipe volumes increased 11%
- Operating margin declined 700bps YoY to 15.6% as pipe/adhesive margins contracted 550bps/670bps
- Retain TP of Rs 2,205, valuing ASTRA at 62x FY24E P/E, but upgrade from HOLD to BUY given the recent price correction

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Steady revenue growth led by pipe volume revival: ASTRA's consolidated Q4FY22 revenue grew 23% YoY to Rs 14bn with plastics/adhesives revenue up 22%/27%. Standalone revenue increased 22% YoY on better PVC pipe realisations (at Rs 235/kg vs. Rs 214/kg YoY) and an 11% jump in volumes. Management expects piping and adhesive division to do 15% CAGR each in the next 5 years.

Margin declines as RM costs climb: Consolidated EBITDA margin declined 700bps YoY to 15.6% as both of ASTRA's business segments saw cost inflation. EBITDA margin in pipes fell 550bps YoY to 18% due to higher raw material cost (+320bps) and lower volumes (-4%). Adhesive margins contracted 670bps to 11% owing to high chemical costs and price hikes coming into effect with a lag.

Full expansion benefits to kick in from FY24: ASTRA has completed the following expansion projects: (a) Hosur plastic water tank, (b) Bhubaneswar machine installation, (c) valve project at Dholka, (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 commercially launch products in these segments in Jun'22. Its adhesive plant in the Dahej (Gujarat) Chemical Zone will be ready by FY23-end.

Value Added Products: The company expects news business like water tank, faucet, sanitaryware, paint, valve and drain pro to contribute Rs 15bn of revenue in the next 5 years.

Upgrade to BUY: We like ASTRA for its strong growth prospects, market leadership, above industry volume growth (9.5% in FY22), net debt-free balance sheet, wide distribution network and healthy return ratios. The stock is currently trading at ~48x FY24E P/E vs. its 5Y median of ~71x. In our view, ASTRA merits a premium to peers owing to its recent entry in faucets & sanitaryware on top of its portfolio of pipes & fittings, adhesives, corrugated pipes and water tanks, which makes it a complete building material player. We continue to value 62x FY24E TP of Rs 2,205 and upgrade to BUY from HOLD on recent ~20% price correction.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	ASTRA IN/Rs 1,699
Market cap	US\$ 4.4bn
Free float	44%
3M ADV	US\$ 9.2mn
52wk high/low	Rs 2,525/Rs 1,610
Promoter/FPI/DII	56%/18%/26%

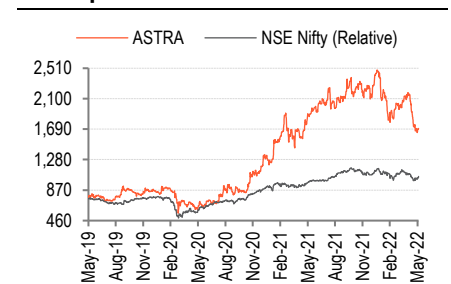
Source: NSE | Price as of 30 May 2022

Key financials

Y/E 31 Mar	FY22P	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)	69.6	58.4	47.8
EV/EBITDA (x)	45.0	36.8	30.9
Adj. EPS growth (%)	20.9	19.0	22.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Analyst meet highlights

Industry and Business highlights

- Per management, ASTRA is gaining market share in the CPVC category.
- The full benefits of capacity expansion projects should flow through in FY24.
- ASTRA is net debt-free and had surplus cash of ~Rs 6.2bn in FY22 that will help the company grow organically and inorganically. In addition, it can increase dividend payout or opt for a buyback.
- Consolidated working capital days for FY22 stood at 21 vs. 27 days in FY21.
- 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, Rs 250mn-300mn for a water tank unit, plus regular outlay of ~Rs 400mn.
- The company has invested Rs 10bn toward capex in the last five years which will yield benefits in the coming years. Therefore, management is confident that it will be able to grow not only in its existing product portfolio, but also earn additional revenue of Rs 15bn in the next 4 -5 years from new products and categories.

Fig 1 – Market opportunity and ASTRA market share

Particulars	Other than ASTRA		ASTRA	
	Market size (Rs bn)	Market share (%)	Market size (Rs bn)	Market share (%)
Plastic & Infra Pipes	350	90.51	33.23	9.49
Water Tanks	50	99.14	0.43	0.86
Paints	550	9.61	2.15	0.39
Adhesives (India)	160	95.65	6.96	4.35
Adhesives (UK)	140	97.62	3.33	2.38
Valve	50	100	New business	
Faucet & Sanitaryware	150	100	New business	

Source: Company PPT

Piping

- Industry growth was at 1-2% in FY22 vs. 9.5% for ASTRA. In FY21, the industry declined 16-17% whereas the company grew 4%. ASTRA has been gaining market share and is a leader in the CPVC segment, enabling above-industry growth.
- Management is targeting 15% CAGR in the piping segment in next 5 years.
- Government spending on various schemes should gather pace in coming years after a significant slowdown due to the pandemic (Jal-Se-Nal, low-cost housing scheme).
- Two new pipe plants at Sangli and Aurangabad have served to decentralise manufacturing and can increase market share in Maharashtra and Southern India over the next five years.

- The company expects the standalone pipes business to double its revenue in five years.
- As per management, PVC prices have fallen by Rs 120/t and Reliance Industries is likely to reduce prices by Rs 5-6 in a couple of days.
- The agriculture segment has declined and a shift to HDPE is visible due to higher PVC prices.
- Pipe industry growth is 1.5x of GDP growth.
- New construction activity has slowed due to high commodity costs.

Adhesives

- ASTRA expects to continue to grow at 15% CAGR over five years. The company is launching a few new products in adhesives & sealants under a different chemistry. This, along with existing products, should double revenue within the next five years.
- The company will shift major chemistries to the Dahej plant as a bulk of the raw material is available nearby which will save on freight cost. It buys raw material in drums which is costly and will shift to tankers. Phase 1 & 2 will have capex of Rs 700mn-750mn and Rs 300mn-400mn respectively.

Sanitaryware & faucetware

- The company is planning to officially launch its sanitaryware and faucetware business in Goa on 11 Jun 2022. Products will then be sold across the West zone. ASTRA will work zone-wise before moving to a pan-India presence.
- The company will have ~550 SKUs in both segments.
- ASTRA will fully outsource the products and will source from Morbi, Masera and imports. No capex has been incurred, except money spent on key management, a warehouse and testing facility.
- The company will be present in all the three segments: premium, mid-premium and economical, with a focus on mid-premium. Imports will be for the premium range.
- Gross margin in the economical segment is ~35% and will vary 2-3% as product profile moves up the ladder.
- The dealer margin will be ~4% and retailer margin 10-15% depending upon the product line. Despite being a new entrant, management plans to give margins similar to existing players.
- ASTRA will gradually shift to in-house manufacturing sometime next year.
- The company is actively looking at the online space and will venture here within 10-12 months of launch.
- Despite being a fairly new entrant and launching during a period of high gas cost, the company has priced its products on par with existing players and believes it is providing better quality.
- PAT breakeven is targeted in a year's time.

Gem Paints (51% stake)

- The company has acquired 51% stake in Gem Paints for Rs 2bn. Gem Paints was founded in 1980 and is involved in manufacturing high-performance industrial and decorative coatings in South India. The company enjoys a competitive edge derived from its resin manufacturing capabilities and in-house R&D division.
- Gem Paints has +3,000 dealers across South India, +28 brands and +100 SKUs across price points.
- The company posted revenue of Rs 2.2bn in FY22 with an EBITDA margin of ~15% (down due to high crude-driven RM) vs. an 18% EBITDA margin in FY21. The last five-year topline CAGR was 9-10%. It is targeting revenue of Rs 6bn-7bn in three years.
- The industrial segment forms 55% of revenue and the balance is from the decorative segment. In next 3-4 years, the decorative contribution is expected to increase to 60-70%.
- Capacity totals 9,000kl with 36,000kl recently added in Karnataka. This can be further expanded to 60,000kl.
- No cash burn is expected in the segment and the plant has the capacity to grow 4-5x with no capex in next 3-4 years.
- Transportation of paint to the warehouse is not a costly affair. In fact, paint is a high asset turn business of 8x.
- In FY21, the paint market size was Rs 530bn and is expected to grow to Rs 690bn by FY25.

Value Added Products (VAP)

- ASTRA has launched water tanks, valves and a drainage pipe product called Drain Pro.
- It earned revenue of Rs 430mn from water tanks in FY22 and expects Rs 1bn in FY23.
- Drain Pro is 5-7% costlier than normal drainage PVC pipes. The product is garnering revenue of Rs 15mn-20mn per month.
- Astral Pipes has forayed into manufacturing specialised uPVC and CPVC valves for household plumbing and Industrial applications. The valves segment was delayed due to Covid. Management is targeting +Rs 1bn in revenue from valves in two years. The manufacturing is 100% in-house, except moulds which are sourced from abroad

Fig 2 – Consolidated quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	13,906	11,278	23.3	10,989	26.5	43,940	31,763	38.3
Total raw material consumed	9,531	6,869	38.8	7,220	32.0	29,280	19,689	48.7
% of sales	68.5	60.9	763bps	65.7	284bps	66.6	62.0	465bps
Employee exps	641	475	34.9	616	4.1	2,453	1,910	28.4
% of sales	4.6	4.2	40bps	5.6	(100bps)	5.6	6.0	(43bps)
Other exp	1,566	1,388	12.8	1,177	33.1	4,654	3,719	25.1
% of sales	11.3	12.3	(105bps)	10.7	55bps	10.6	11.7	(112bps)
Total expenditure	11738	8732	34.4	9013	30.2	36387	25318	43.7
% of sales	84.4	77.4	698bps	82.0	239bps	82.8	79.7	310bps
EBITDA	2,168	2,546	(14.8)	1,976	9.7	7,553	6,445	17.2
EBITDA Margin (%)	15.6	22.6	(698bps)	18.0	(239bps)	17.2	20.3	(310bps)
Depreciation	328	292	12.3	321	2.2	1,269	1,165	8.9
Other income	164	50	228.0	62	164.5	349	251	39.0
Interest cost	16	11	45.5	20	(20.0)	61	116	(47.4)
PBT	1,988	2,293	(13.3)	1,697	17.1	6,572	5,415	21.4
Taxes	492	527	(6.6)	418	17.7	1,581	1,248	26.7
Effective tax rate (%)	24.7	23.0	177bps	24.6	12bps	24.1	23.0	101bps
RPAT before extraordinaries	1496	1766	(15.3)	1279	17.0	4,991	4,167	19.8
Less: forex loss/(gain)	0	0		0	-	-	-	
Less: minority int	36	1	3500.0	0	-	68	15	353.3
Less: Loss from JV	(27)	(15)	80.0	(6)	350.0	(66)	(38)	73.7
APAT	19	4	375.0	0	-	19	70	(72.9)
RPAT	1450	1747	(17.0)	1273	13.9	4,906	4,059	20.9

Source: BOBCAPS Research, Company

Fig 3 – Segmental performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales								
Plastics	10,841	8,864	22.3	8,380	29	33,658	24,187	39.2
Adhesives	3,065	2,414	27.0	2,609	17	10,282	7,576	35.7
Total	13,906	11,278	23.3	10,989	27	43,940	31,763	38.3
EBIT								
Plastics	1,623	1,802	(9.9)	1,376	18	5,200	4,194	24.0
Adhesives	327	153	113.7	290	13	1,254	1,145	9.5
Total	1,950	1,955	(0.3)	1,666	17	6,454	5,339	20.9
EBIT Margin (%)								
Plastics	15.0	20.3	(536bps)	16.4	(145bps)	15.4	17.3	(189bps)
Adhesives	10.7	6.3	433bps	11.1	(45bps)	12.2	15.1	(292bps)

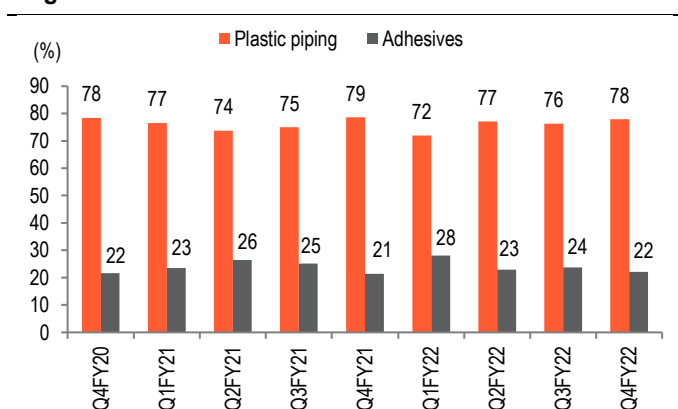
Source: Company, BOBCAPS Research

Fig 4 – Standalone quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	11,094	9,097	22.0	8,570	29.5	34,433	24,863	38.5
Total raw material consumed	7,691	5,559	38.4	5,618	36.9	23,140	15,546	48.8
% of sales	69.3	61.1	822bps	65.6	377bps	67.2	62.5	468bps
Employee exps	338	244	38.5	319	6.0	1,303	1,043	24.9
% of sales	3.0	2.7	36bps	3.7	(68bps)	3.8	4.2	(41bps)
Other exp	1,200	1,157	3.7	936	28.2	3,640	2,929	24.3
% of sales	10.8	12.7	(190bps)	10.9	(11bps)	10.6	11.8	(121bps)
Total expenditure	9229.0	6960.0	32.6	6873.0	34.3	28083.0	19518.0	43.9
% of sales	83.2	76.5	668bps	80.2	299bps	81.6	78.5	306bps
EBITDA	1865	2137	(12.7)	1697	9.9	6350	5345	18.8
EBITDA Margin (%)	16.8	23.5	(668bps)	19.8	(299bps)	18.4	21.5	(306bps)
Depreciation	273	245	11.4	265	3.0	1,050	962	9.1
Other income	137	41	234.1	44	211.4	274	207	32.4
Interest cost	41	6	583.3	6	583.3	89	76	17.1
PBT	1,688	1,927	(12.4)	1,470	14.8	5,485	4,514	21.5
Taxes	462	471	(1.9)	366	26.2	1,418	1,122	26.4
Effective tax rate (%)	27.4	24.4	293bps	24.9	247bps	25.9	24.9	100bps
APAT	1226	1456	(15.8)	1104	11.1	4067	3392	19.9
extraordinary items	(19)	(53)	(64.2)	1	(2000.0)	(19)	(123)	(84.6)
Forex	0	0	-	0	-	0	0	-
RPAT	1207	1403	(14.0)	1105	9.2	4048	3269	23.8

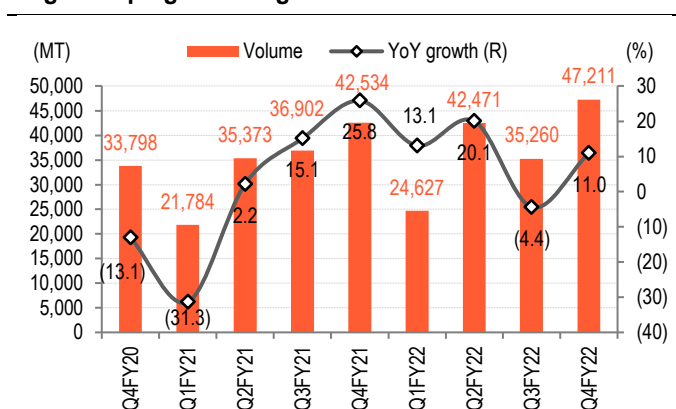
Source: BOBCAPS Research, Company

Fig 5 – Consolidated revenue mix



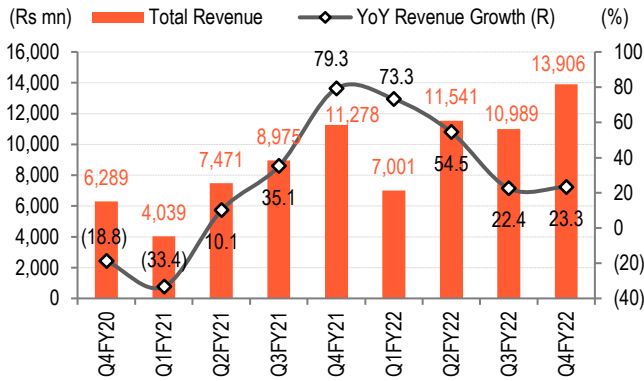
Source: Company, BOBCAPS Research

Fig 6 – Piping volume growth



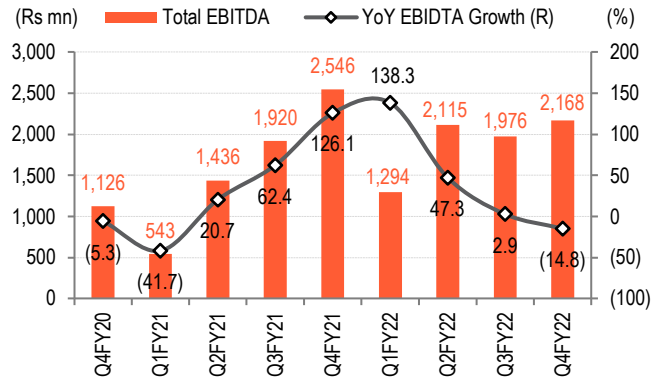
Source: Company, BOBCAPS Research

Fig 7 – Consolidated revenue growth



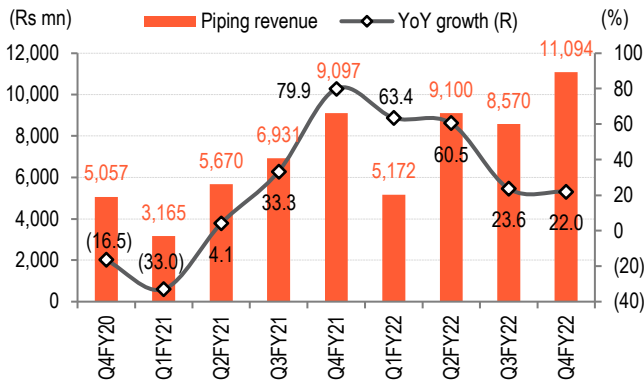
Source: Company, BOBCAPS Research

Fig 8 – Consolidated EBITDA growth



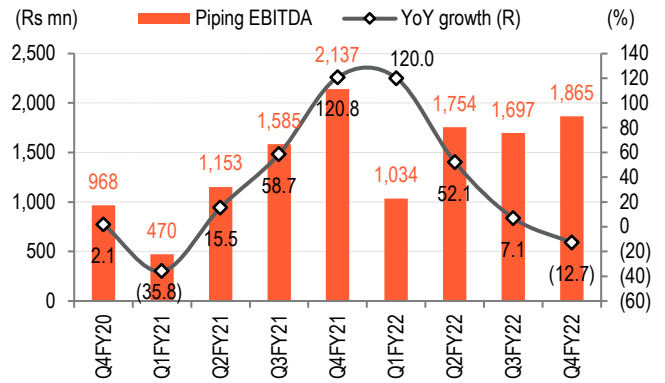
Source: Company, BOBCAPS Research

Fig 9 – Standalone piping revenue growth



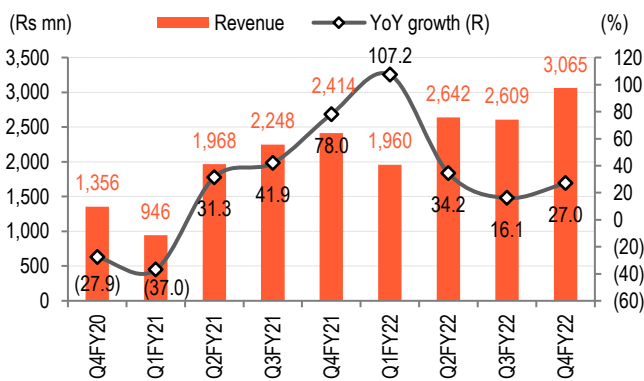
Source: Company, BOBCAPS Research

Fig 10 – Standalone piping EBITDA growth



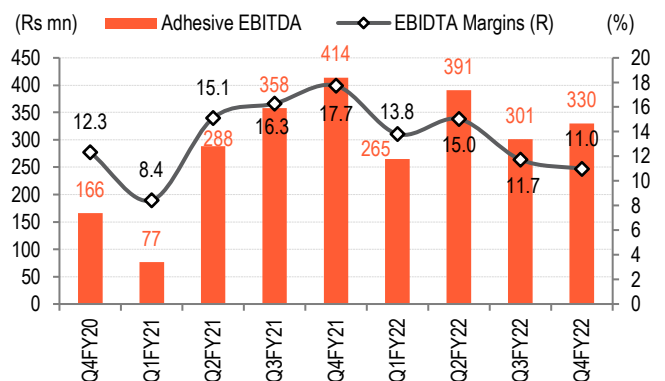
Source: Company, BOBCAPS Research

Fig 11 – Standalone adhesives revenue growth



Source: Company, BOBCAPS Research

Fig 12 – 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 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 (9.5% in FY22), net debt-free balance sheet, wide distribution network and healthy return ratios. The stock is currently trading at ~48x FY24E P/E vs. its 5Y median of ~71x. In our view, ASTRA merits a premium to peers owing to its recent entry in faucets & sanitaryware on top of its portfolio of pipes & fittings, adhesives, corrugated pipes and water tanks, which makes it a complete building material player. We continue to value 62x FY24E TP of Rs 2,205 and upgrade to BUY from HOLD on recent ~20% price correction.

Key risks

Key downside risks to our estimates are:

- Lower than-expected growth in the housing market,
- higher raw material prices, and
- failure of new products and category

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Astral	ASTRA IN	4.4	1,699	2,205	BUY
Finolex Industries	FNXP IN	1.2	153	180	BUY
Supreme Industries	SI IN	3.0	1,821	2,400	BUY

Source: BOBCAPS Research, NSE | Price as of 30 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	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	FY22P	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	FY22P	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	FY22P	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	FY22P	FY23E	FY24E
EV/Sales	13.3	10.8	7.7	6.5	5.6
EV/EBITDA	77.2	53.2	45.0	36.8	30.9
Adjusted P/E	136.6	84.1	69.6	58.4	47.8
P/BV	22.7	18.0	14.6	12.0	9.9

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	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	FY22P	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%

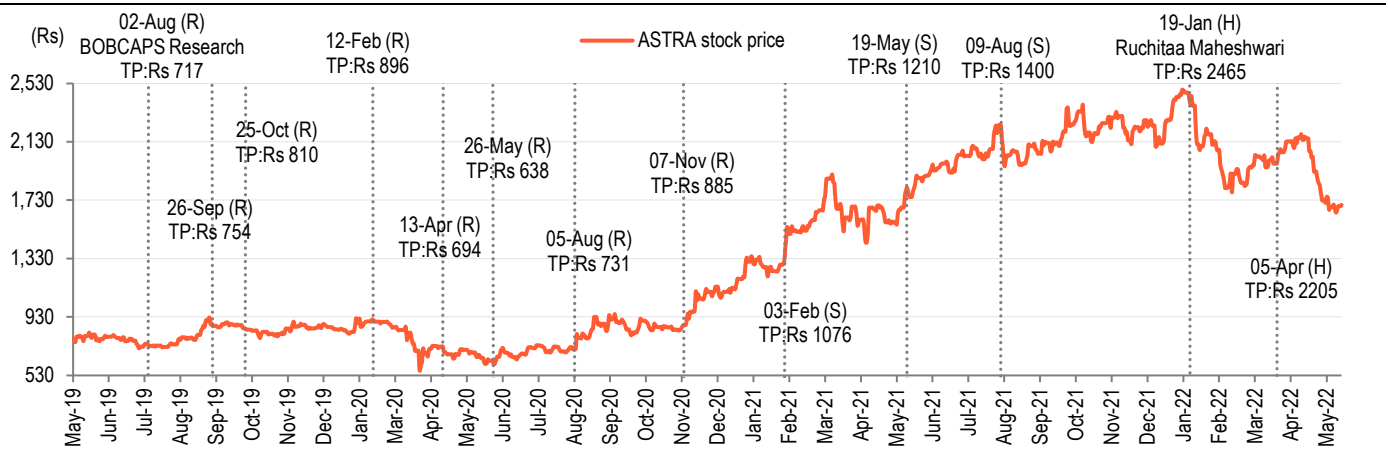
HOLD – Expected return from -6% to +15%

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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