

Astral

HOLD

Subdued Q1 performance, growth trajectory back on track

Summary

Astral's Q1FY22 result was below our and consensus estimates on key parameters. Statewise lockdown amid second wave of Covid-19 weighed on product off-take which dented earnings of the company on a sequential quarter. However, the growth has been robust on YoY on a low base of Q1FY21. The management guided that demand has back to earlier growth trend and net sales has picked up from July, 21 onwards. Net sales improved by 73% YoY to Rs7bn, while EBITDA was up by 138% YoY to Rs1bn. The company reported net profit of Rs0.8bn, growth of 270% YoY. Astral remains focused on new products launches and capacity addition which would pave the way for healthy double digit sales growth in future. Maintain HOLD with a revised TP of Rs2,130.

Key Highlights and Investment Rationale

■ **Healthy improvement in piping and adhesive segment on a low base of Q1FY21**

Astral reported 59% YoY net sales growth in plastic segment to Rs5bn led by 13% YoY volume growth to 24,627MT and higher NSR by 41% YoY to Rs205/Kg over Q1FY21. The company's adhesives business reported robust business recovery and net sales jumped up by 115% YoY to Rs1.9bn. The management remained confident that growth traction would continue as opening up of economies has led to demand revival in both rural and urban areas. Odisha plant commencement was delayed due to 2nd wave of Covid and is expected to start production by November 2021.

■ **Operating leverage aided EBITDA margin improvement on YoY**

The company's EBITDA margin improved by 510bps YoY to 18.5% led by better product mix. As net sales contribution of adhesives would increase in total sales, we expect EBITDA margin to soften. The management has guided EBITDA margin of 16%-17% over a long term.

■ **Value priced in, HOLD with a TP of Rs2,130**

We like Astral in plastic pipes segment given its strong brand recall, extensive distribution network and healthy balance sheet. However, value looks priced in at current level. HOLD with a TP of Rs2,130.

TP Rs2,130
CMP Rs2,151

Potential upside / downside -1%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	22.7	28.4
Consensus	23.6	29.8
% difference	(3.8)	(4.8)

Shareholding Pattern (%)

Promoters	55.7
FII	22.8
DII	7.5
Public	14.0

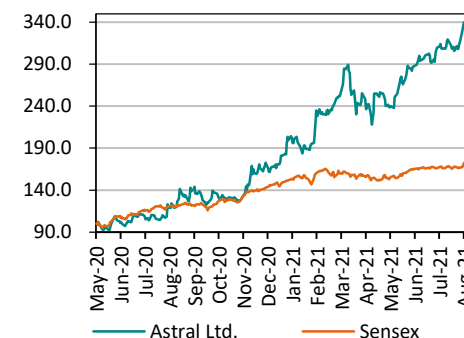
Price Performance (%)

	-1m	-3m	-12m
Absolute	5.8	36.5	173.4
Rel to Sensex	1.9	25.9	130.4

Key Stock Data

Bloomberg / Reuters	ASTRA IN/ASPT.BO
Sector	Plastic Building Material
Shares o/s (mn)	201
Market cap. (Rs mn)	432,153
Market cap. (US\$ mn)	5,819
3-m daily avg Trd value (Rs mn)	380.6
52-week high / low	Rs2,294 / 767
Sensex / Nifty	54,403 / 16,258

Relative to Sensex (%)



Financial snapshot

	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	25,073	25,779	31,763	38,074	45,308
EBITDA	3,849	4,429	6,445	7,044	8,699
EBITDA (%)	15.4	17.2	20.3	18.5	19.2
Adj. PAT	2,045	2,528	4,222	4,553	5,707
EPS (Rs)	17.1	16.7	21.0	22.7	28.4
EPS Growth (%)	13.3	(1.9)	25.5	7.8	25.4
PE (x)	126.0	128.5	102.4	95.0	75.8
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1
EV/EBITDA (x)	67.2	73.3	66.4	60.4	48.5
RoE (%)	17.8	18.2	24.8	21.7	22.5
RoCE (%)	22.2	20.7	28.4	25.8	26.8

Source: IDBI Capital Research;

Concall Highlights

- As per management, it was able to grow its revenues by 63% & 110% YoY in pipe and adhesives business. Company's sales volume in pipe business was up 13% YoY at 24,627MT, Adhesives utilization is ~40%-45%.
- As per management demand scenario of pipes and adhesives was affected in May and first half of June. From last week of June onwards both businesses have gained momentum and are seeing very encouraging sales numbers in both segments pipes and adhesives. In July 2021 pipe sales has grown by 65% and adhesives by 36% in comparison to July 2020 and a volume growth ~18-19%. Company is even seeing growth trajectory continuing in August.
- As per management, EBITDA was impacted on a QoQ basis due to economies of scale being impacted as volumes were lower compared to previous quarter therefore company was not able to absorb overhead cost, but company was positive on future trajectory as company has maintained margins even though there is a drop in PVC prices
- **PVC prices:** As per management, PVC prices dropped very heavily +15% in Q1 but has now stabilized and due to supply constraint there is an upward trajectory seen.
- Company has taken price increase in CPVC in Q1 of 5%-7% and management guided that further price increase will be taken if required.

Capacity Expansion:

- Management mentioned that they will be launching a revolutionary product by December.
- Company has commercial production of plastic storage tanks at Ghiloth plant in July 2021.
- Plant is under construction for plastic storage tank at Hosur and production is expected to start by November 2021.
- Valve project is expected to be completed by Q2FY22.
- Odisha plant commencement was delayed due to 2nd wave of covid and is expected to start production by November 2021.

Management Outlook:

- Management mentioned that demand scenario across all categories namely, industrials, plumbing, drainage, CPVC, adhesives etc. have been strong, even rural and urban demand has seen good traction except certain areas of south which is impacted due to Covid related restrictions. Management is confident to deliver double digit growth.
- Management mentioned that its long term guidance for margins is ~16%-17%
- In adhesives segment management stated that it will focus on attaining its landmark guidance of Rs10,000mn topline and a EBITDA of more than 15%
- Company has proposed merger of subsidiaries Astral Biochem Private Limited and Resinova Chemie Limited with Astral Limited is pending with regulatory authorities for approval. Company is expecting it to be completed by Q4FY22.

Exhibit 1: Financial snapshot

(Rs mn)

Particulars (Rs mn)	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
Total revenues	7,001	11,278	(37.9)	4,039	73.3
Total expenditure	5,707	8,732	(34.6)	3,496	63.2
EBIDTA	1,294	2,546	(49.2)	543	138.3
EBIDTA margin (%)	18.5	22.6	(410)bps	13.4	510bps
Depreciation	306	292	4.8	285	7.4
Interest cost	46	12	283.3	59	(22.0)
Other income	43	50	(14.0)	39	10.3
PBT	985	2292	(57.0)	238	313.9
Tax	234	527	(55.6)	25	836.0
Adj. net profit	751	1,761	(57.4)	203	270.0
Adj. EPS (INR)	3.7	8.8	(57.4)	1.0	270.0

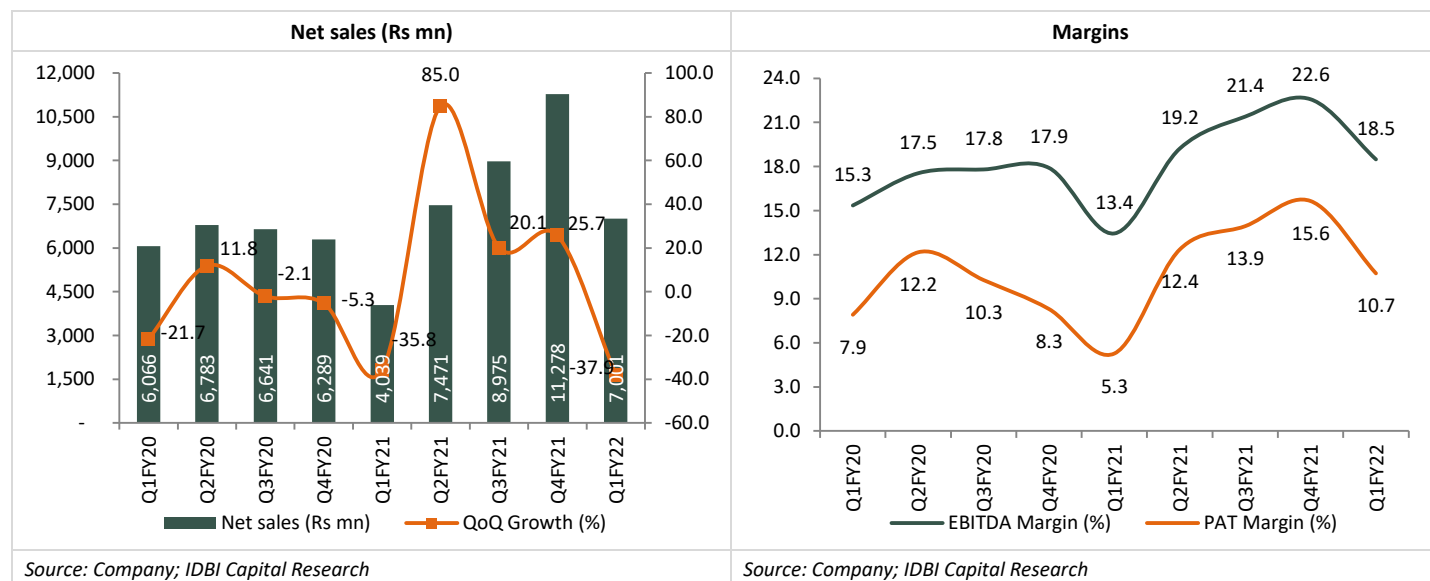
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

(Rs mn)

Particulars (Rs mn)	Q1FY22A	Q1FY22E	Variance (%)
Net Sales	7,001	8,120	-13.8
EBITDA	1,294	1,665	-22.3
<i>EBITDA Margin (%)</i>	<i>18.5</i>	<i>21.0</i>	<i>(250)bps</i>
Net Profit	751	1056	-28.9
EPS, Rs	3.7	5.3	-28.9

Source: Company; IDBI Capital Research

Exhibit 3: Quarterly Revenue & Margins performance**Exhibit 4: Segment performance analysis**

(Rs mn)					
Particulars	Q4FY21	Q3FY21	QoQ (%)	Q4FY20	YoY (%)
Plastic division					
Volumes (MT)	24,627	42,534	-42.1	21,784	13.1
Revenues	5,041	8,864	-43.1	3,165	59.3
EBITDA	758	1,802	-57.9	500	51.6
EBITDA margin (%)	15.0	20.3	(530)bps	15.8	(80)bps
Adhesive business					
Revenues	1,960	2,414	(18.8)	912	114.9
EBITDA	259	453	(42.8)	77	236.4
EBITDA margin (%)	13.2	18.8	(560)bps	8.4	480bps

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	25,779	31,763	38,074	45,308
<i>Growth (%)</i>	2.8	23.2	19.9	19.0
Operating expenses	(21,350)	(25,318)	(31,030)	(36,609)
EBITDA	4,429	6,445	7,044	8,699
<i>Growth (%)</i>	15.1	45.5	9.3	23.5
Depreciation	(1,079)	(1,165)	(1,295)	(1,495)
EBIT	3,350	5,280	5,748	7,204
Interest paid	(394)	(131)	(59)	(47)
Other income	121	251	301	377
Pre-tax profit	3,077	5,400	5,990	7,534
Tax	(565)	(1,248)	(1,508)	(1,896)
<i>Effective tax rate (%)</i>	18.4	23.1	25.2	25.2
Minority Interest	-	-	-	-
Net profit	2,512	4,152	4,483	5,637
Exceptional items	(16)	(70)	(70)	(70)
Adjusted net profit	2,528	4,222	4,553	5,707
<i>Growth (%)</i>	23.6	67.0	7.8	25.4
<i>Shares o/s (mn nos)</i>	151	201	201	201

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	3,077	5,400	5,990	7,534
Depreciation	1,079	1,165	1,295	1,495
Tax paid	(668)	(1,277)	(1,357)	(1,707)
Chg in working capital	(424)	662	(313)	(471)
Other operating activities	-	-	-	-
Cash flow from operations (a)	3,064	5,950	5,616	6,851
Capital expenditure	(1,856)	(1,733)	(2,068)	(2,595)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,856)	(1,733)	(2,068)	(2,595)
Equity raised/(repaid)	31	51	(1)	1
Debt raised/(repaid)	(611)	(792)	(41)	(25)
Dividend (incl. tax)	(181)	(241)	(482)	(724)
Chg in minorities	18	44	-	-
Other financing activities	(142)	(54)	(70)	-
Cash flow from financing (c)	(885)	(992)	(594)	(747)
Net chg in cash (a+b+c)	323	3,225	2,954	3,509

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	9,680	10,248	11,021	12,120
Investments	-	-	-	-
Other non-curr assets	3,050	3,112	3,351	3,702
Current assets	10,162	13,368	17,024	21,117
Inventories	5,404	4,721	5,146	5,558
Sundry Debtors	2,278	2,767	3,071	3,440
Cash and Bank	1,301	4,760	7,518	10,630
Marketable Securities	-	-	-	-
Loans and advances	731	860	989	1,145
Total assets	22,892	26,728	31,395	36,939
Shareholders' funds	15,029	18,958	22,958	27,872
Share capital	151	201	201	201
Reserves & surplus	14,878	18,757	22,757	27,671
Total Debt	1,324	532	491	467
Secured loans	1,090	247	235	223
Unsecured loans	234	285	257	244
Other liabilities	456	514	676	866
Curr Liab & prov	5,915	6,512	7,058	7,523
Current liabilities	5,849	6,443	6,984	7,445
Provisions	66	69	74	78
Total liabilities	7,695	7,558	8,225	8,855
Total equity & liabilities	22,892	26,728	31,395	36,939
Book Value (Rs)	98	93	113	137

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	16.7	21.0	22.7	28.4
Adj EPS growth (%)	(1.9)	25.5	7.8	25.4
EBITDA margin (%)	17.2	20.3	18.5	19.2
Pre-tax margin (%)	11.9	17.0	15.7	16.6
ROE (%)	18.2	24.8	21.7	22.5
ROCE (%)	20.7	28.4	25.8	26.8
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.3	1.3	1.3
Leverage factor (x)	1.6	1.5	1.4	1.3
Net margin (%)	9.8	13.3	12.0	12.6
Net Debt/Equity (x)	0.0	(0.2)	(0.3)	(0.4)
Working Capital & Liquidity ratio				
Inventory days	77	54	49	45
Receivable days	32	32	29	28
Payable days	81	75	66	60

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	128.5	102.4	95.0	75.8
Price / Book value (x)	22.0	23.1	19.0	15.7
PCE (x)	90.0	80.3	73.9	60.0
EV / Net sales (x)	12.6	13.5	11.2	9.3
EV / EBITDA (x)	73.3	66.4	60.4	48.5
Dividend Yield (%)	0.0	0.0	0.1	0.1



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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