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## Company Update

## Plastic

Target price Rs2,373

## Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	55.7	55.9	55.9
Institutional investors	29.7	29.7	30.2
MFs and others	7.5	8.0	8.7
FIs/Banks	0.4	0.3	0.7
Insurance Cos.	5.0	5.0	5.0
FIIIs	16.8	16.4	15.8
Others	14.6	14.4	13.9

Source: BSE

## ESG disclosure score

Year	2021	2022	Chg
ESG score	47.5	51.0	3.5
Environment	29.5	29.5	0.0
Social	28.0	38.6	10.6
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with  
a higher score indicating higher ESG  
disclosures.

Source: Bloomberg, I-sec research

## Astral Ltd

**BUY****Maintain**

## Demand and margin trends remain favourable

**Rs1,922**

We interacted with the management of Astral Ltd (Astral) and following are the key takeaways: a) the demand trend in pipe market remains healthy in Q4FY23-TD with double-digit volume growth YoY driven by the plumbing segment; b) operating margins are expected to improve QoQ in Q4FY23 for both pipes (as inventory losses are not likely to recur in Q4 given that PVC resin prices have stabilised) and adhesives (fall in raw material prices to result in normalised margins); c) ramp-up in bathware segment (sanitaryware & faucetware) is progressing well and the company has opened ~320 showrooms/display centres as of Feb'23. According to management Astral is on track to achieve pipe volume growth and adhesive revenue growth in high double-digits YoY in FY23. We maintain our estimates and BUY rating on the stock with an unchanged Mar'24E target price of Rs2,373.

- **Pipe volume demand remains healthy:** Management indicated demand for PVC pipes has remained steady with YoY double-digit volume growth in Q4FY23-TD driven by the plumbing segment. However, March is a crucial month to determine overall growth in seasonally the best quarter and the management is hopeful of it being healthy. Channel inventory is now near normal levels as PVC prices have stabilised. East plant (Odisha) has started PVC pipe production, which should enable the company to have deeper penetration in the region and thus overall better volume growth. CPVC production from the East plant is expected to commence in Q1FY24 post the requisite approvals. Management indicated it is on track to achieve its guidance of high double-digit pipe volume growth in FY23. Demand for adhesives remains healthy and the company expects segmental revenue growth in high double-digits in FY23. Management stated FY24 pipe volume outlook remains buoyant with lower PVC prices and continued uptick in the housing market. We have factored-in pipe volume CAGR of 17% over FY22-FY25E.
- **Margins in both pipe and adhesive segments to normalise from Q4FY23:** Pipe margins are expected to normalise from Q4FY23 (post the high inventory losses in 9MFY23) as PVC resin prices have stabilised. Management believes 15-17% is a sustainable margin in pipe segment. Adhesive margins are expected to normalise to ~15% from Q4FY23 and remain steady in FY24 too as raw material prices have declined and most of the high-cost inventory was consumed in Q3FY23.
- **Bathware segment scaling up:** The newly-entered segment of bathware (sanitaryware and faucetware) is ramping up well and Astral has already opened ~320 showroom/display centres (another 80 are WIP) as of Feb'23. Company expects to open at least 500 showrooms/display centres by Q1FY24 (vs earlier guidance of end-FY23). We have factored-in revenue of ~Rs1,250mn in FY24E from the bathware business.
- **Maintain BUY:** We continue to like Astral for its strong brand, comprehensive product portfolio, wide distribution reach and robust balance sheet. We believe Astral has near-term margin and demand tailwinds in both its major businesses (pipes and adhesives). Maintain **BUY** with an unchanged Mar'24E target price of Rs2,373.

Market Cap	Rs387bn/US\$4.7bn
Reuters/Bloomberg	ASTRA IN /ASPT.BO
Shares Outstanding (mn)	201.5
52-week Range (Rs)	2594/1608
Free Float (%)	44.1
FII (%)	17.1
Daily Volume (US\$'000)	12,891
Absolute Return 3m (%)	(6.8)
Absolute Return 12m (%)	4.3
Sensex Return 3m (%)	(3.7)
Sensex Return 12m (%)	10.8

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	43,940	52,084	61,592	71,465
EBITDA (Rs mn)	7,554	7,933	10,277	12,186
Net Income (Rs mn)	4,774	4,830	6,646	8,220
EPS (Rs)	23.8	24.0	33.1	40.9
% Chg YoY	19.8	1.2	37.6	23.7
P/E (x)	80.9	80.0	58.1	47.0
EV/E (x)	50.4	47.9	36.6	30.6
Dividend Yield	0.2	0.3	0.8	1.1
RoCE (%)	21.0	17.8	21.2	23.0
RoE (%)	22.6	19.1	22.9	25.0

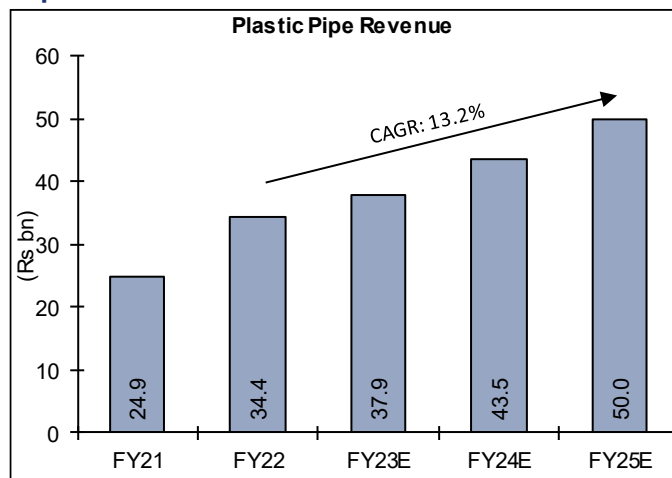
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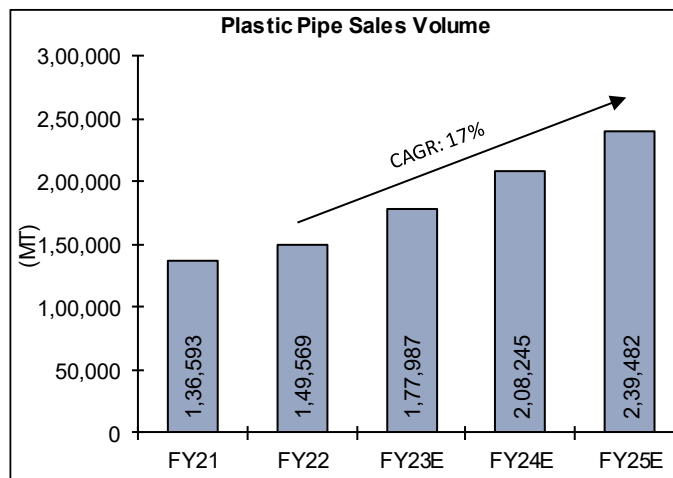
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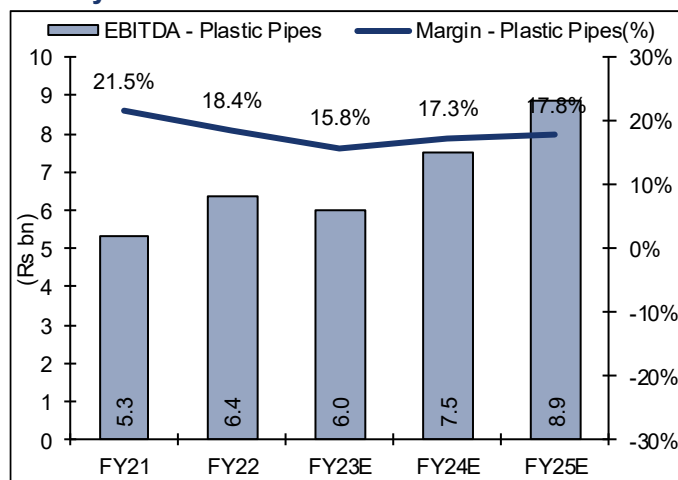
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**Key charts****Chart 1: Plastic pipe revenue CAGR of 13.2% expected over FY22-FY25E**

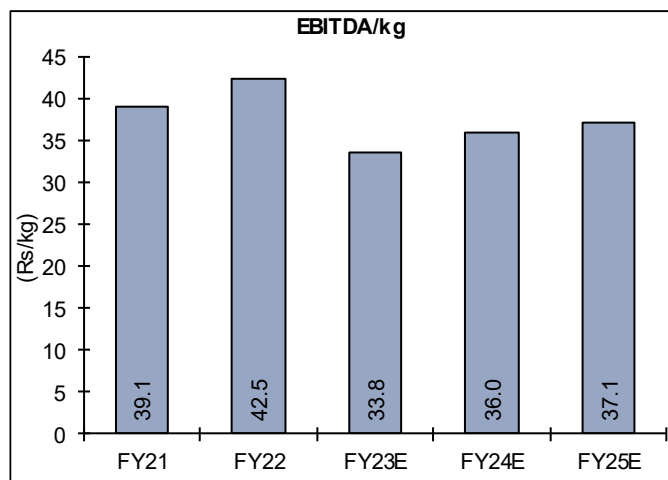
Source: Company data, I-Sec research

**Chart 2: Plastic pipe volumes to witness 17% CAGR over FY22-FY25E**

Source: Company data, I-Sec research

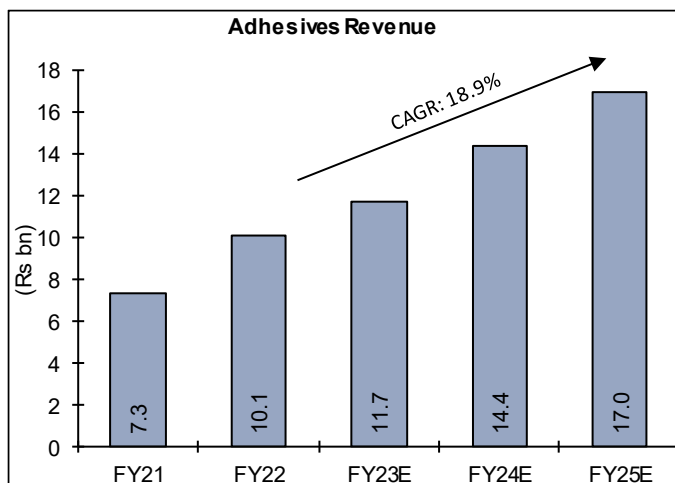
**Chart 3: Plastic pipe EBITDA margin to remain healthy**

Source: Company data, I-Sec research

**Chart 4: Plastic pipes EBITDA/kg to remain stable**

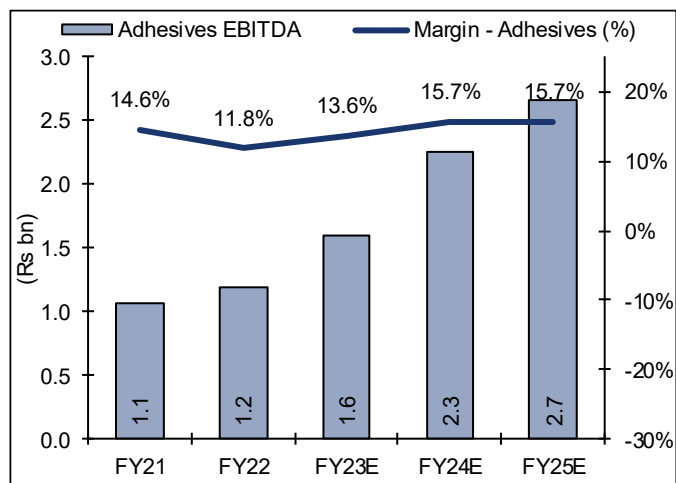
Source: Company data, I-Sec research

**Chart 5: Adhesive segment to witness revenue CAGR of 18.9% during FY22-FY25E**



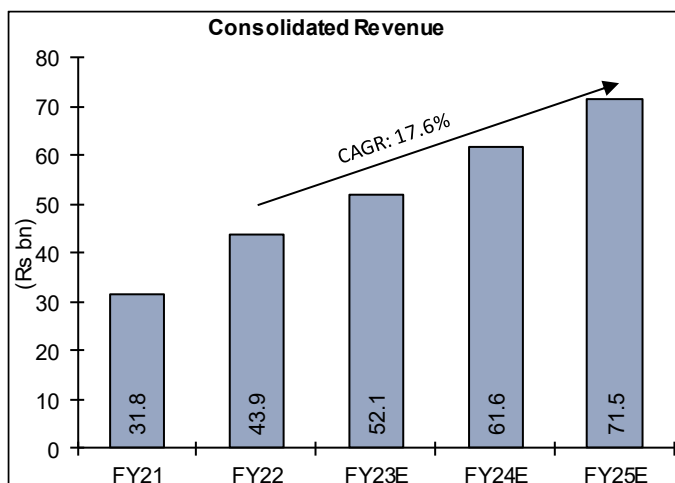
Source: Company data, I-Sec research

**Chart 6: Adhesive EBITDA margin to improve over FY22-FY25E**



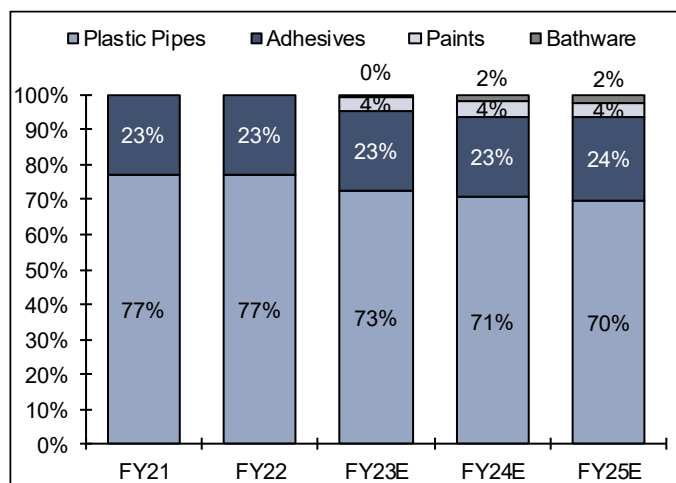
Source: Company data, I-Sec research

**Chart 7: Consolidated revenue CAGR of 17.6% estimated for FY22-FY25E**



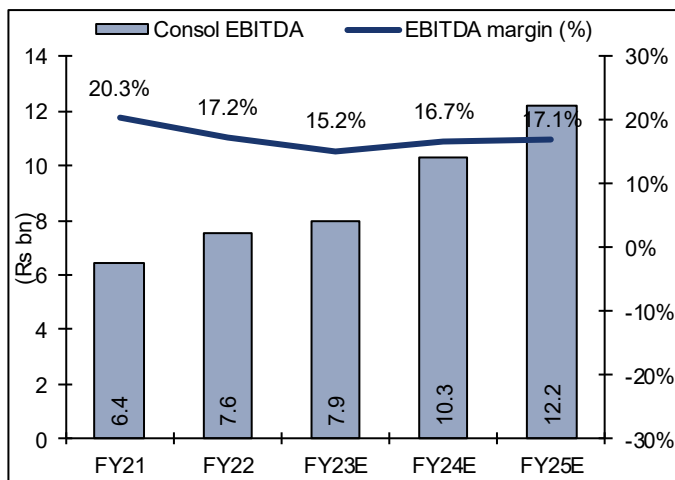
Source: Company data, I-Sec research

**Chart 8: Pipe segment to continue to be the dominant contributor to revenue**



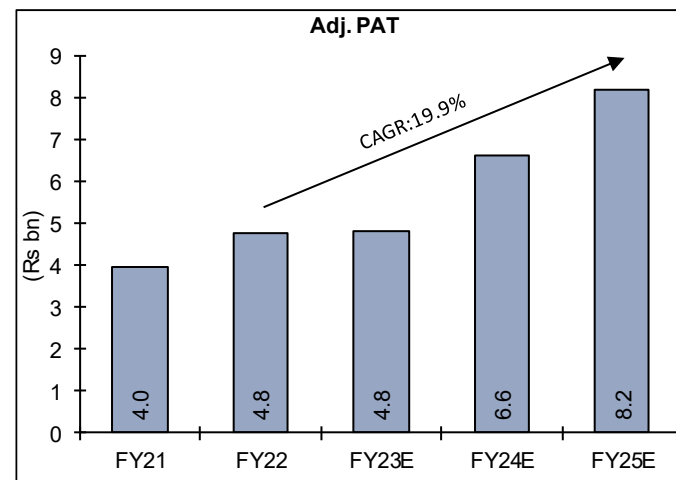
Source: Company data, I-Sec research

**Chart 9: Consolidated EBITDA margin (%) to stay robust**

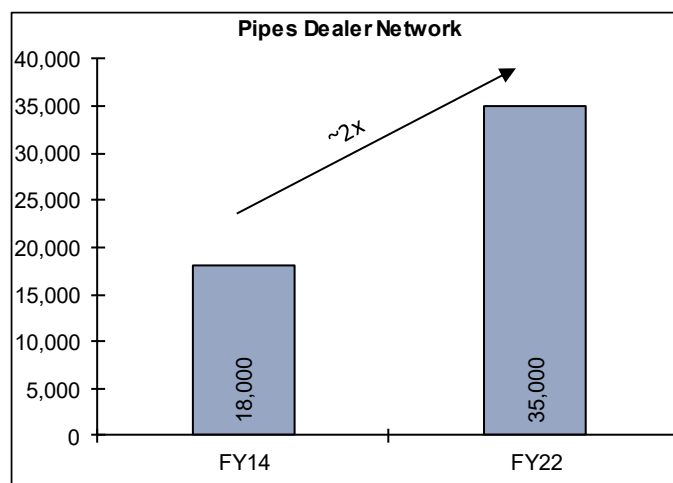


Source: Company data, I-Sec research

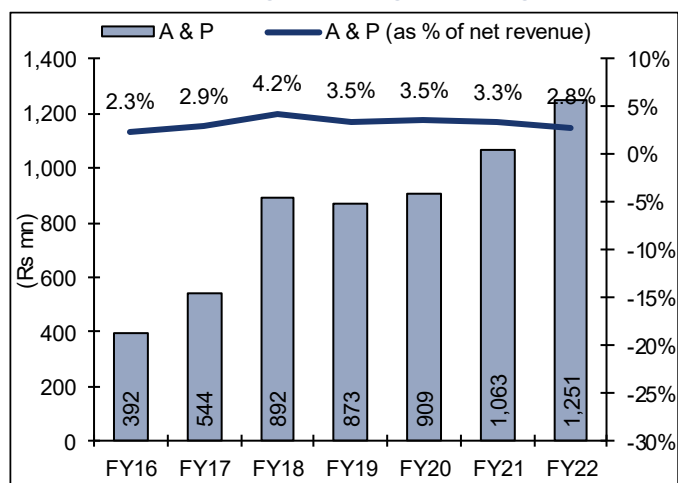
**Chart 10: PAT CAGR of 19.9% expected over FY22-FY25E**



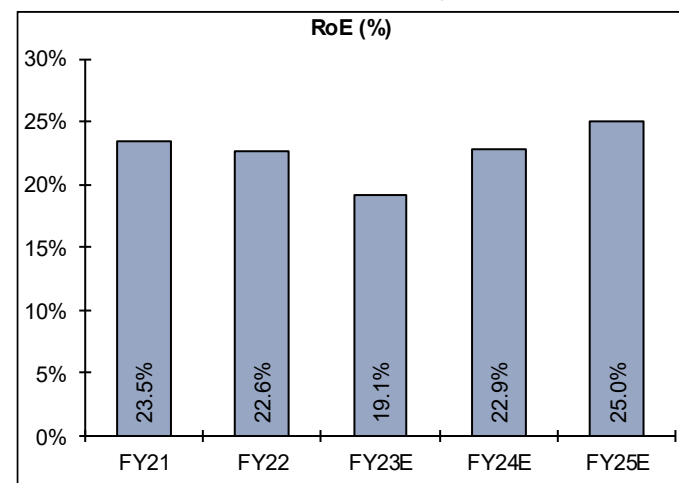
Source: Company data, I-Sec research

**Chart 11: Astral has expanded its pipe dealer network ~2x over FY14-FY22**

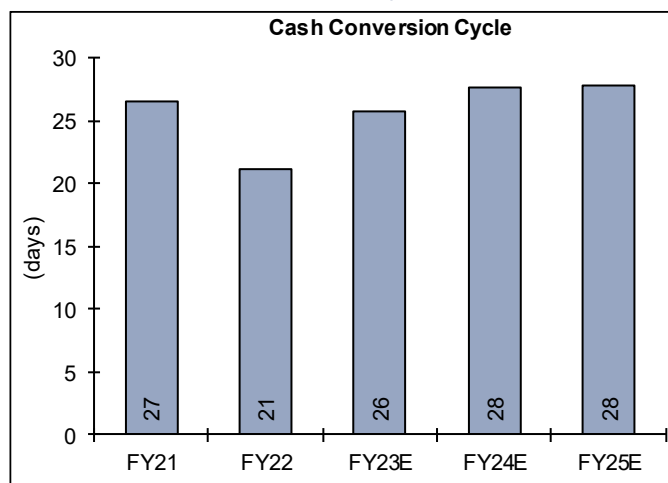
Source: Company data, I-Sec research

**Chart 12: Astral spent ~Rs5.9bn on A&P during FY16-FY22 resulting in strong branding**

Source: Company data, I-Sec research

**Chart 13: RoE is expected to stay robust**

Source: Company data, I-Sec research

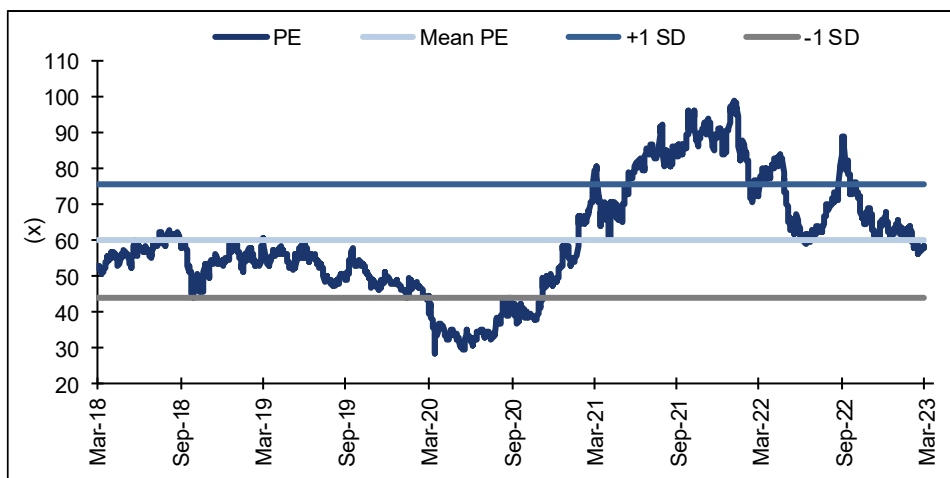
**Chart 14: Cash conversion cycle to remain stable**

Source: Company data, I-Sec research

## Valuations

Astral is among the leading players in India's CPVC/PVC plumbing pipe market. Company has a wide-ranging product portfolio, robust brand name and large distribution reach, which could enable it to benefit from the growing preference for organised players. Its adhesive business further boosts growth prospects.

Astral is expected to witness revenue and PAT CAGRs of 17.6% and 19.9%, respectively, over FY22-FY25E with strong return ratios (RoE of 25% in FY25E). Maintain **BUY** with an unchanged Mar'24E target price of Rs2,373, set at 58x P/E 1-year forward (in line with 5-year average P/E, 1-year forward P/E).

**Chart 15: 1-year forward P/E band**

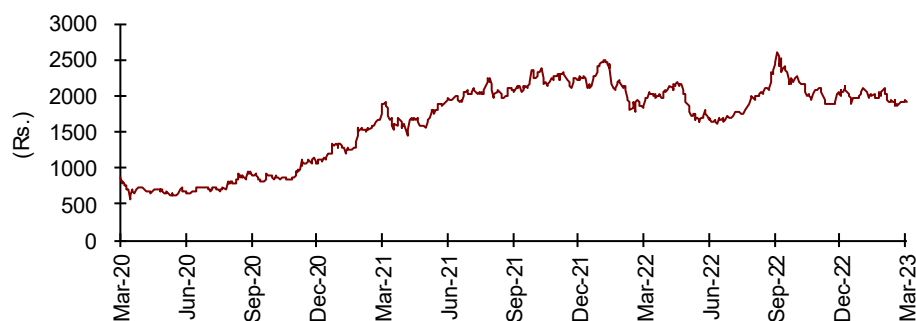
Source: Bloomberg, I-Sec research

**Key downside risks to our estimates**

- Slowdown in housing market leading to lower demand.
- Sharp fall in PVC prices adversely impacting profitability of the pipe segment due to inventory losses.
- High increase in raw material prices for adhesives impacting the profitability and demand in this segment.

**Key upside risks**

- Better-than-expected demand from the housing segment.
- Lower raw material prices for adhesives leading to better-than-expected margins.

**Price chart**

Source: Bloomberg

## Financial summary

**Table 1: Profit & Loss statement**
*(Rs mn, year ending March 31)*

Income Statement	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	43,940	52,084	61,592	71,465
Operating Expenses	36,386	44,151	51,316	59,279
EBITDA	7,554	7,933	10,277	12,186
% margins	17.2	15.2	16.7	17.1
Depreciation & Amortisation	1,269	1,789	1,839	1,856
Interest Cost	129	138	27	12
Other Income	244	488	584	788
Recurring PBT	6,400	6,493	8,994	11,106
Less: Taxes	1,581	1,493	2,159	2,665
Less: Minority				
Interest/Extraordinary Items	-19	170	190	220
Net Income (Reported)	4,838	4,830	6,646	8,220
Net Income (Adjusted)	4,774	4,830	6,646	8,220

Source: Company data, I-Sec research

**Table 2: Balance sheet**
*(Rs mn, year ending March 31)*

Balance Sheet	FY22	FY23E	FY24E	FY25E
<b>Assets</b>				
Total Current Assets	17,678	19,658	25,125	30,823
of which cash & cash eqv.	6,418	6,867	9,856	13,155
Total Current Liabilities	8,845	9,053	10,486	12,097
Net Current Assets	8,833	10,605	14,640	18,726
Investments	-	-	-	-
Net Fixed Assets	16,192	17,903	17,563	17,707
Total Assets	33,870	37,561	42,689	48,530
<b>Liabilities</b>				
Borrowings	851	300	150	50
Total Liabilities	10,226	9,883	11,166	12,677
Equity Share Capital	201	201	201	201
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	23,165	27,029	30,684	34,794
Net Worth	23,366	27,230	30,885	34,995
Minority Interest	278	448	638	858
Total Liabilities & Shareholders' Equity	33,870	37,561	42,689	48,530

Source: Company data, I-Sec research

**Table 3: Quarterly trend**
*(Rs mn, year ending March 31)*

	Mar'22	Jun'22	Sept'22	Dec'22
Net sales	13,906	12,129	11,716	12,678
% growth (YoY)	23.3	73.1	-2.4	15.0
EBITDA	2,168	1,706	1,440	1,864
EBITDA Margin (%)	15.6	14.1	12.3	14.7
Other Income	164	114	109	-20
Extraordinary Items	-	-	-	-
Net profit	1,441	970	745	960

Source: Company data, I-Sec Research

**Table 4: Cashflow statement**
*(Rs mn, year ending March 31)*

Cashflow	FY22	FY23E	FY24E	FY25E
Operating Cashflow	5,723	5,636	7,820	9,729
Working Capital Changes	-514	-1,324	-1,045	-787
Capex	-3,760	-3,500	-1,500	-2,000
Free Cashflow	1,963	2,136	6,320	7,729
Cashflow from Investing Activities	-3,760	-3,500	-1,500	-2,000
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	184	-551	-150	-100
Dividend paid	-611	-966	-2,991	-4,110
Chg. In Cash & Cash equivalents	1,658	449	2,989	3,299

Source: Company data, I-Sec research

**Table 5: Key ratios**
*(Year ending March 31)*

Ratios	FY22	FY23E	FY24E	FY25E
<b>Per Share Data (Rs)</b>				
EPS (Diluted Adjusted)	23.8	24.0	33.1	40.9
CEPS (Cash EPS)	30.1	32.9	42.2	50.2
Dividend per share (DPS)	3.0	4.8	14.9	20.5
Book Value per share (BV)	116.3	135.5	153.7	174.2
<b>Growth Ratios (%)</b>				
Operating Income	38.3	18.5	18.3	16.0
EBITDA	17.2	5.0	29.5	18.6
Adjusted Net Income	19.8	1.2	37.6	23.7
EPS (Diluted Adjusted)	19.8	1.2	37.6	23.7
<b>Valuation Ratios (x)</b>				
P/E	80.9	80.0	58.1	47.0
P/CEPS	63.9	58.3	45.5	38.3
P/BV	16.5	14.2	12.5	11.0
EV / EBITDA	50.4	47.9	36.6	30.6
EV / Operating Income	8.7	7.3	6.1	5.2
<b>Operating Ratios</b>				
Other Income / PBT (%)	3.8	7.5	6.5	7.1
Effective Tax Rate (%)	24.7	23.0	24.0	24.0
NWC / Total Assets (%)	7.1	10.0	11.2	11.5
Net D/E Ratio (x)	-0.2	-0.2	-0.3	-0.4
<b>Return/Profitability Ratios (%)</b>				
Adjusted Net Income Margins	10.9	9.3	10.8	11.5
RoCE	21.0	17.8	21.2	23.0
RoE	22.6	19.1	22.9	25.0
Dividend Yield	0.2	0.3	0.8	1.1
EBITDA Margins	17.2	15.2	16.7	17.1

Source: Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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