

Sailing smoothly in tough times. Focus on profitability. Maintain Buy.

Astral Poly Technik (ASTRA) Q3FY19 numbers were in line with estimates on revenue and profitability parameters. Piping volume at 4.2% were lower than estimates, however, same was more than compensated by higher realizations. ASTRA did not budge under the price cutting strategies adopted by other large players to gain volumes. This ensured margins as well as kept receivables in check. Adhesive business was also impacted by macro slowdown and inventory losses along with high branding cost. We believe that these are investment phases and ASTRA will reap long term benefits of these strategies for prolonged periods. ASTRA has upped the ante on capacity expansion, distribution reach and branding initiatives. With new product addition in the Adhesive segment as well as pipe segment, we feel that revenue growth along with margin profile should get better. With high growth trajectory and expansion in return ratios, valuations will remain expensive. We rollover valuations to FY21E earnings. Reiterate Buy with a target price of ₹ 1,378.

Pipe Segment – Focus on margins and receivables

ASTRA is not resorting to market tactics of pushing volumes at the cost of margins and increasing receivables. During Q3FY19, macro outlook was bleak due to the liquidity crunch and overall weak market sentiment. We believe that with improvement in the liquidity situation, market volume outlook should improve and our recent channel check suggests that January has been marginally better than Q3FY19. We expect ASTRA volume growth to come back in double digits in the ongoing quarter with protection of margins. Investments in the brand has enabled ASTRA to maintain premium pricing and protect margins.

Adhesive Segment – Impacted by inventory losses and branding. Benefits to accrue.

Adhesive segment also got impacted by the slowdown in the overall market. Volatility in the crude prices resulted in inventory losses of around ₹ 40 mn. We expect this to reverse to some extent in the ongoing quarter. Launch of nationwide advertising campaign for Resiquick ballooned the advertising cost for this segment. We expect this to normalize over the next few quarters. We believe that this is a cycle and ASTRA will reap long term benefits of this as this product has one of the best margins across all the product offerings.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	6,337	5,123	23.7	6,292	0.7
Total Expense	5,400	4,386	23.1	5,348	1.0
EBITDA	937	737	27.0	944	(0.8)
Depreciation	202	141	42.8	192	4.9
EBIT	735	596	23.4	752	(2.2)
Other Income	32	57	(44.5)	45	(30.0)
Interest	8	5	68.8	136	(94.0)
EBT	759	648	17.0	661	14.7
Tax	235	181	30.2	196	20.0
RPAT	523	468	11.9	466	12.4
APAT	531	464	14.5	458	15.8
			(bps)		(bps)
Gross Margin (%)	33.9	34.8	(84)	34.1	(11)
EBITDA Margin (%)	14.8	13.9	84	15.0	(22)
NPM (%)	8.4	8.8	(39)	7.3	109
Tax Rate (%)	31.0	27.9	312	29.6	138
EBIT Margin (%)	11.6	11.3	33	11.9	(35)

CMP	₹ 1,150
Target / Upside	₹ 1,378 / 20%
BSE Sensex	36,154
NSE Nifty	10,831

Scrip Details

Equity / FV	₹ 120mn / ₹ 1
Market Cap	₹ 138bn
	US\$ 2bn
52-week High/Low	₹ 1,210/₹ 743
Avg. Volume (no)	69,791
NSE Symbol	ASTRAL
Bloomberg Code	ASTRA IN

Shareholding Pattern Dec'18(%)

Promoters	58.5
MF/Banks/FIs	8.9
FII	18.3
Public / Others	14.3

Valuation (x)

	FY19E	FY20E	FY21E
P/E	62.1	49.0	40.2
EV/EBITDA	33.9	27.7	22.8
ROE (%)	19.1	19.8	20.5
RoACE (%)	24.2	24.8	26.0

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	26,361	31,701	38,125
EBITDA	4,025	4,885	5,862
PAT	2,219	2,811	3,427
EPS (₹)	18.5	23.5	28.6

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Capacity Expansion – reducing freight cost

ASTRA has been expanding its capacity across plants to capitalize on the upcoming demand in the piping as well as Adhesive segment. Pipe products are heavy by weight and entail high logistics cost. ASTRA now has plants across regions in India except East India. We believe that having plants across India will provide logistic advantage to ASTRA in the longer run. In the Adhesive segment, ASTRA will get all the products from SEAL IT and this will ensure higher revenue growth with higher margin profile.

Valuation – will remain expensive

ASTRA has been a multi-year compounding story and we expect the trend to continue. Addition in product portfolio in both segments – pipe and adhesive will augment growth with expanding margin profile. ASTRA management strategy to pursue profitable volumes will ensure margin protection and keep balance sheet healthy. Despite the very high valuations, we believe that ASTRA stock performance will continue to be driven by profitability growth. We rollover valuations to FY21E earnings. Reiterate Buy with a target price of ₹ 1,378.

Key Highlights (Consolidated)

- Net sales increased by 23.7% on a YoY basis and was flat on a QoQ basis to ₹ 6,337 mn.
- Raw material cost increased by 21.6% on a YoY basis and by 1% on a QoQ basis to ₹ 4,186 mn.
- Other expenditure has increased by 21.4% on a YoY basis to ₹ 829 mn.
- Depreciation increased by 4.9% sequentially to ₹ 202 mn.
- Interest cost has increased to ₹ 8 mn.
- On a YoY basis, there was a growth in net profit by 14.5% to ₹ 531 mn.

Key Highlights (Standalone)

- Net sales increased by 13.6% on a YoY basis and by 1.4% on QoQ basis to ₹ 4,437 mn.
- Raw material cost increased by 9.9% on a YoY basis and by 1.9% on a QoQ basis to ₹ 2,956 mn.
- Other expenditure has decreased by 2% on a YoY basis and by 10.8% on a QoQ to ₹ 525 mn.
- Depreciation increased by 3.4% sequentially to ₹ 144 mn.
- Interest cost is ₹ 1 mn in Q3FY19.
- On a YoY basis, net profit has increased by 32.5% to ₹ 416 mn.

Conference Call KTA's

Expansion

- Dispatch of PVC pipes and CPVC has started from Jaipur plant to Northern regions.
- Hosur plant expansion is completed. Depot at Hosur is completely operational and APTL has closed Coimbatore and Bangalore depots and dispatches to South will take place from Hosur facility from now.
- At Ahmedabad, Santej expansion is almost complete and have made changes in production line. All CPVC products will be produced from one plant in Ahmedabad region.
- APTL have also done trials for valves on industrial and plumbing segment and will be launched from Q1FY20, with technology from abroad.
- Completed 5 big projects of Pex-a-Pro. One new big project will come this quarter.
- APTL is increasing CPVC capacity in South and North for reducing dependency of pipes in Ahmedabad.
- Launched fittings of 12inch- 16 inch in Ahmedabad Plant. Increasing capacity of drainage systems at Ahmedabad plant.
- Demand for Fire Pro is increasing at a faster rate.
- Dholka plant expansion will be completed in Q4FY19.
- APTL is the process of freezing an ideal location is East India in this quarter. Expansion from East will take place in next year.
- APTL's 90-95% business is from infrastructure sector.

Rex Poly Extrusion

- One corrugator has arrived and is being installed at Sitarganj in North. 2 more corrugators are expected to arrive by March-April. One will be installed at plant in South and the other in Sangli. Plan to install corrugator in Jaipur in next year.
- Total capacity of Rex is 24,000-25,000 MT. After adding 3 corrugators a sizeable jump will be seen in volumes.

Branding and Distribution

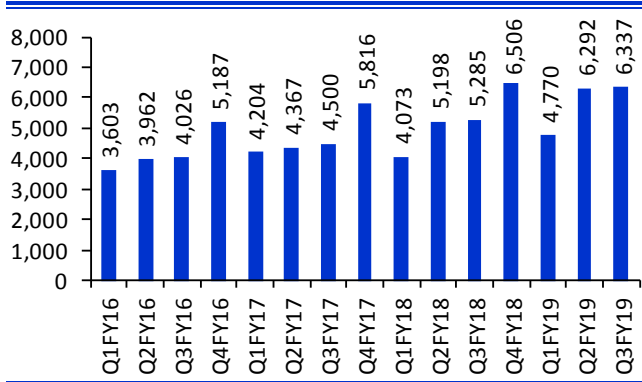
- Branding cost of Resinova was high this year. Spent ₹ 35 mn in Q2FY19, ₹ 50 mn in Q3FY19 and plan to spend ₹ 30-35 mn in Q4FY19. Full year plans to spend ₹ 120 mn on branding.
- APTL has 3,600 distributors for pipes and 2,400 distributors for adhesives.

Capacity

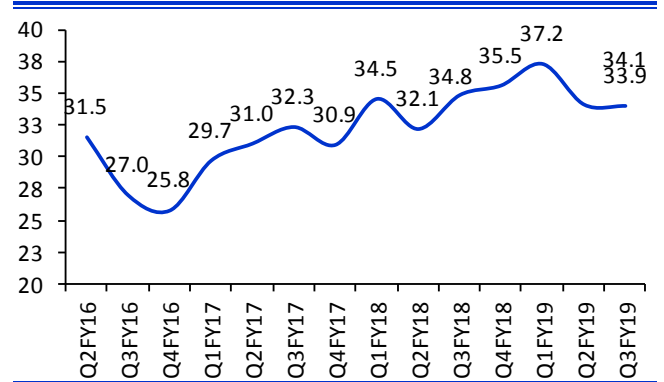
- Current capacity of pipes is 1,74,801 MT. This year there is no rise in capacity,
- Next year plan to add 20,000-25,000 MT capacity at Hosur, plan to add capacity in Rex and another 20,000 MT capacity from the new plant in East India (yet to be finalised).
- So by FY20 end there will be additional capacity of 70,000-75,000 MT. If East India plant is delayed then capacity will be 50,000-55,000 MT by FY20 end.
- Current capacity utilisation is 60%. By FY20 capacity utilisation will be 75%.
- Capacity utilisation of Resinova is 35%. Revenue potential from Resinova is ₹ 10,000 mn.

Guidance

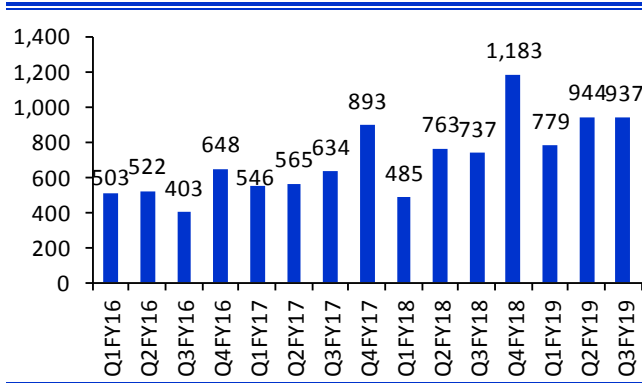
- Pipes are growing at a run rate of 14-15% and will continue to do so on a sustainable basis. (including Rex).
- Margins for only pipes business will be higher.
- Revenues for pipes (Including Rex) will grow at minimum 15%.
- ROCE next year onwards on a consolidated basis is seen at 20% plus.
- Q4 has always been a robust quarter for APTL and is expected to see good EBITDA growth.

Exhibit 1: Revenue (₹ Mn)


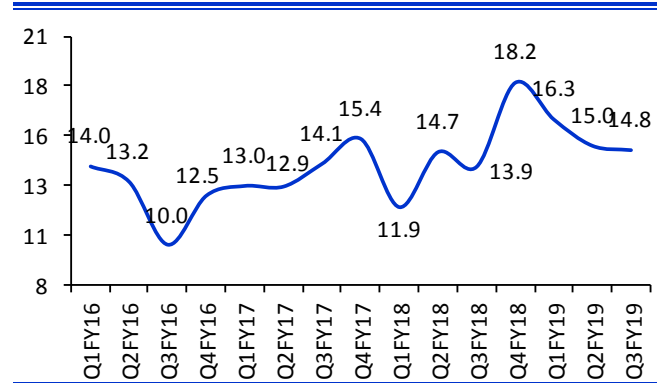
Source: Company, DART

Exhibit 2: Gross Margin %


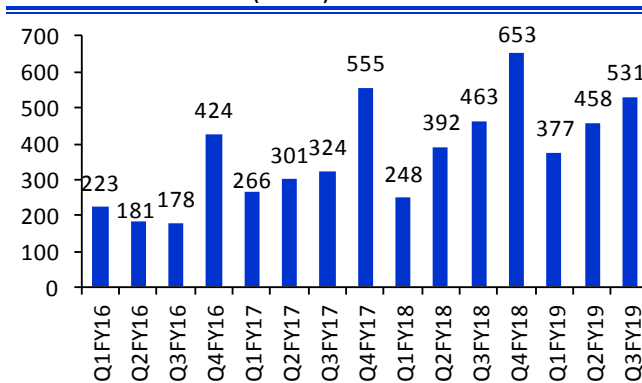
Source: Company, DART

Exhibit 3: Operating (₹ Mn)


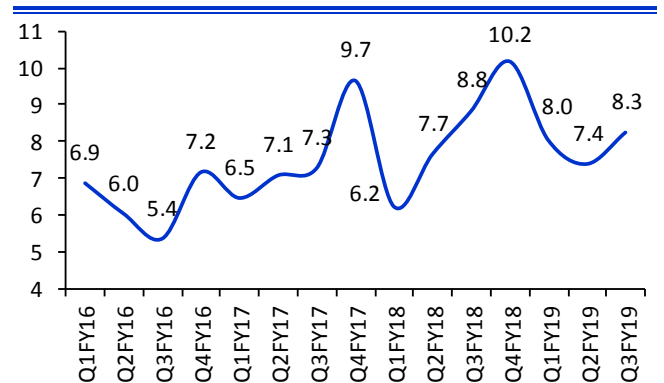
Source: Company, DART

Exhibit 4: OPM %


Source: Company, DART

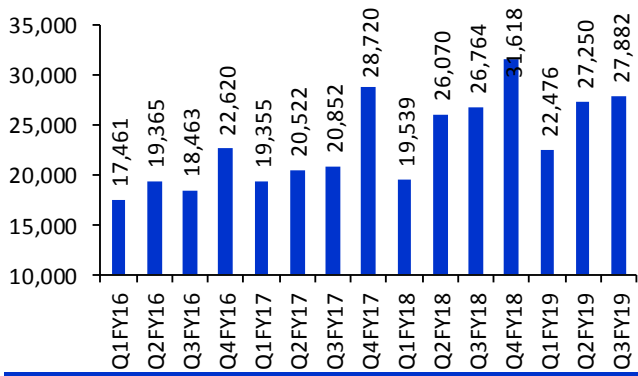
Exhibit 5: Net Profit (₹ Mn)


Source: Company, DART

Exhibit 6: NPM %


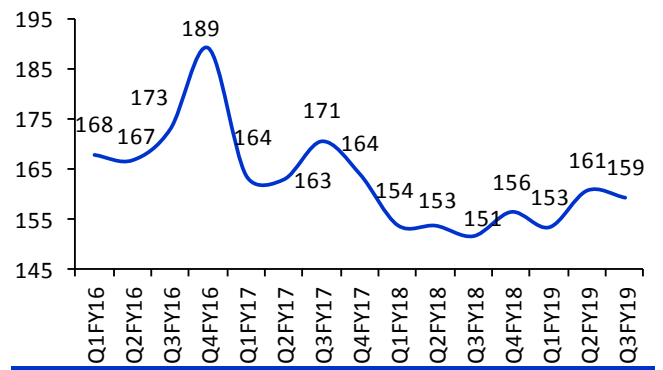
Source: Company, DART

Exhibit 7: Volumes (MT)



Source: Company, DART

Exhibit 8: Blended Realization (₹ Per kg)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	21,060	26,361	31,701	38,125
Total Expense	17,892	22,336	26,816	32,263
COGS	13,834	18,340	21,990	26,405
Employees Cost	1,065	949	1,140	1,371
Other expenses	2,994	3,047	3,686	4,488
EBIDTA	3,168	4,025	4,885	5,862
Depreciation	571	693	697	762
EBIT	2,597	3,331	4,188	5,100
Interest	216	399	428	487
Other Income	127	137	143	154
Exc. / E.O. items	0	20	20	20
EBT	2,508	3,089	3,923	4,788
Tax	724	828	1,056	1,291
RPAT	1,757	2,219	2,811	3,427
Minority Interest	0	42	56	70
Profit/Loss share of associates	(27)	0	0	0
APAT	1,757	2,219	2,811	3,427

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	120	120	120	120
Minority Interest	135	324	380	450
Reserves & Surplus	10,063	12,969	15,214	18,015
Net Worth	10,182	13,089	15,334	18,136
Total Debt	1,891	2,738	2,918	3,098
Net Deferred Tax Liability	267	58	58	60
Total Capital Employed	12,475	16,210	18,690	21,744

Applications of Funds

Net Block	6,077	5,096	5,159	5,157
CWIP	3,079	2,649	2,751	2,793
Investments	0	0	0	0
Current Assets, Loans & Advances	7,531	12,863	15,641	19,606
Inventories	3,572	4,163	5,007	6,022
Receivables	3,067	3,400	4,089	4,919
Cash and Bank Balances	437	4,182	5,391	7,404
Loans and Advances	149	901	936	1,043
Other Current Assets	306	217	218	219
Less: Current Liabilities & Provisions	4,212	4,399	4,861	5,811
Payables	3,491	3,560	3,660	3,660
Other Current Liabilities	721	839	1,201	2,151
Net Current Assets	3,319	8,465	10,781	13,795
Total Assets	12,475	16,210	18,690	21,744

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	34.3	30.4	30.6	30.7
EBIDTA Margin	15.0	15.3	15.4	15.4
EBIT Margin	12.3	12.6	13.2	13.4
Tax rate	28.9	26.8	26.9	27.0
Net Profit Margin	8.3	8.4	8.9	9.0
(B) As Percentage of Net Sales (%)				
COGS	65.7	69.6	69.4	69.3
Employee	5.1	3.6	3.6	3.6
Other	14.2	11.6	11.6	11.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	12.0	8.3	9.8	10.5
Inventory days	62	58	58	58
Debtors days	53	47	47	47
Average Cost of Debt	10.3	17.2	15.1	16.2
Payable days	60	49	42	35
Working Capital days	58	117	124	132
FA T/O	3.5	5.2	6.1	7.4
(D) Measures of Investment				
AEPS (₹)	14.7	18.5	23.5	28.6
CEPS (₹)	19.4	24.3	29.3	35.0
DPS (₹)	0.6	3.0	4.0	5.0
Dividend Payout (%)	4.1	16.3	17.1	17.6
BVPS (₹)	85.0	109.3	128.0	151.4
RoANW (%)	18.8	19.1	19.8	20.5
RoACE (%)	23.1	24.2	24.8	26.0
RoAIC (%)	22.6	27.7	33.1	36.9
(E) Valuation Ratios				
CMP (₹)	1150	1150	1150	1150
P/E	78.4	62.1	49.0	40.2
Mcap (₹ Mn)	1,37,732	1,37,732	1,37,732	1,37,732
MCap/ Sales	6.5	5.2	4.3	3.6
EV	1,39,186	1,36,288	1,35,259	1,33,427
EV/Sales	6.6	5.2	4.3	3.5
EV/EBITDA	43.9	33.9	27.7	22.8
P/BV	13.5	10.5	9.0	7.6
Dividend Yield (%)	0.1	0.3	0.3	0.4
(F) Growth Rate (%)				
Revenue	11.2	25.2	20.3	20.3
EBITDA	20.1	27.0	21.4	20.0
EBIT	21.6	28.3	25.7	21.8
PBT	23.3	23.2	27.0	22.0
APAT	21.5	26.4	26.6	21.9
EPS	21.5	26.4	26.6	21.9
Cash Flow				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	2,818	3,098	2,881	3,416
CFI	(1,853)	623	(860)	(391)
CFF	(711)	26	(812)	(1,012)
FCFF	980	3,720	2,019	2,615
Opening Cash	180	435	4,182	5,391
Closing Cash	435	4,182	5,391	7,404

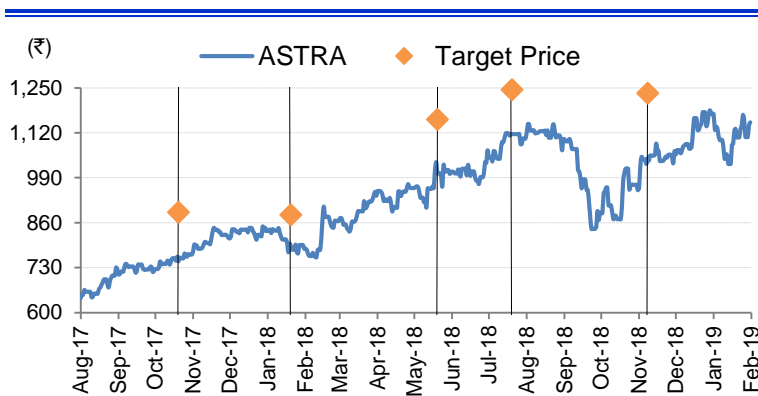
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-17	Accumulate	890	749
Feb-18	Accumulate	883	793
Jun-18	Accumulate	1,159	1,003
Aug-18	Accumulate	1,245	1,116
Nov-18	Accumulate	1,235	1,046

*Price as on recommendation date

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