

# Astral Poly Technik (ASTPOL)

**₹ 1148**

## Higher realisation drives performance...

- Astral's consolidated revenue growth of ~24% YoY in Q3FY19 was led by consolidation of Rex Polyextrusion (Rex) in the topline. Piping and adhesive segment recorded revenue growth of ~14% and ~15%, respectively. Piping segment volume growth at ~4% YoY was impacted by liquidity issue and systemic corrections (like channel financing and installation of billing software). On the adhesive segment, Resinova (domestic business) recorded slow revenue growth of 7% YoY on account of a high base
- Lower-than-expected increase in EBITDA margin was largely attributable to a sharp increase in branding expenses (of Resinova) and employee cost in Q3FY19. Finally, a sharp increase in depreciation & tax provisioning restricted PAT growth at ~15% YoY
- The management has guided for consolidated revenue growth of 15%, going forward, led by piping and adhesive segment revenue growth of 15% and 20%, respectively

### Acquisition, capacity addition drives strong revenue growth

We slightly tweak our volume growth estimate at ~15% (from earlier 20%) in the piping segment for FY18-21E considering the delay in capacity addition in the eastern market. We believe the recent acquisition of Rex (industrial pipes) coupled with organic expansion would lead to increase in pipe manufacturing capacity by ~25% in FY20E to 2.5 lakh tonnes (including capacity of Rex). APTL will use the land bank of Rex for organic growth and strengthen Astral's presence in the western and central regions of India. Further, DWC pipe (for sewerage & drainage systems) and piping system for underground communication segments contribute a major part in topline of Rex. We believe the future growth of these segments is directly linked to expenditure from government & major telecom players in the long run. On the other hand, the adhesive segment, which contributes ~30% to the topline, may record revenue CAGR of 21% in FY18-21E supported by capacity addition and expansion in new geographies.

### Stabilisation of new units, softening raw material prices to drive margin

We model a gradual improvement in the EBITDA margin (by ~140 bps) in FY19-21E led by a gradual increase in utilisation level of new units coupled with efficient inventory management (saving freight cost by consolidating warehouses). Also, a gradual improvement in profitability of adhesive and sealant segment due to a better product mix (launch of new products like silicon tape in the domestic market that has ~40% of EBITDA margin), rising proportion of retail segments, continuous addition to dealer network would help drive the profitability of the business.

### Recent rally in stock captures near term positive

We reckon that a revival of the plastic piping industry is on the cards with government push on the housing sector, implementation of GST and continued replacement demand from tier II, tier III cities. Additionally, backward integration coupled with stabilisation of new capacity would help EBITDA margins to remain elevated. We believe Rex would add value to ATPL in the long run by contributing to the bottomline from day one. We believe that at 51x FY20E and 39x FY21E earnings, the stock captures near term positives. Hence, we maintain our target price and change our recommendation from BUY to **HOLD**.

Rating matrix		
Rating	:	Hold
Target	:	₹ 1250
Target Period	:	12 months
Potential Upside	:	9%

What's Changed?	
Target	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Changed from ₹ 23.1 to ₹ 22.3
EPS FY21E	Unchanged
Rating	Changed from Buy to Hold

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	633.7	512.3	23.7	629.2	0.7
EBITDA	93.7	73.7	27.1	94.4	-0.8
EBITDA (%)	14.8	14.4	40bps	15.0	-22bps
PAT	53.1	46.3	14.6	45.8	15.8

Key Financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	2,106	2,541	3,201	3,713
EBITDA	316.8	372.6	491.9	597.5
Net Profit	175.7	191.6	267.3	349.1
EPS (₹)	14.7	16.0	22.3	29.2

Valuation summary				
	FY17	FY18	FY20E	FY21E
P/E	78.3	71.7	51.4	39.4
Target P/E	85.2	78.1	56.0	42.9
EV / EBITDA	43.6	37.2	28.2	23.0
P/BV	13.5	10.8	9.0	7.4
RoNW (%)	17.2	15.0	17.5	18.9
RoCE (%)	22.9	21.8	24.6	26.1

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	13,747.3
Total Debt (FY18) (₹ Crore)	123.0
Cash & Invest. (FY18) (₹ Crore)	43.7
EV (₹ Crore)	13,826.6
52 week H/L	1210/ 742
Equity capital (₹ Crore)	12.0
Face value (₹)	1.0

Price performance (%)				
	1M	3M	6M	12M
Supreme Ind	-10.6	-0.3	-15.7	-16.6
Finolex Ind	-6.9	-2.5	-16.8	-27.9
Astral Poly	-2.1	20.8	2.9	48.9

### Research Analyst

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### Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	633.7	663.6	512.3	23.7	629.2	0.7	Sales growth was led by both piping and adhesive segment owing to acquisition of new business
Other Income	3.2	3.9	5.7	-44.5	4.5	-30.0	
Raw Material Exp	407.9	424.7	333.8	22.2	402.8	1.3	
Cost of traded goods	10.8	12.6	10.7	0.8	12.2	-11.7	
Employee Exp	38.6	32.9	25.9	48.8	33.9	13.7	
Other expenditure	82.9	92.9	68.3	21.4	86.0	-3.6	
EBITDA	93.7	100.5	73.7	27.1	94.4	-0.8	
EBITDA Margin (%)	14.8	15.2	14.4	40 bps	15.0	-22 bps	Sharp increase in employee cost and higher other expenditure restricted margin expansion to the tune of ~40 bps YoY
Depreciation	20.2	18.6	14.1	42.8	19.2	4.9	
Interest	0.8	13.7	0.5	68.8	13.6	-94.0	
PBT	75.9	72.1	64.8	17.1	66.1	14.7	
Total Tax	23.5	18.8	18.1	30.2	19.6	20.0	
Profit from associates	0.7	-0.4	-0.4	-276.2	-0.7	-202.8	
PAT	53.1	52.9	46.3	14.6	45.8	15.8	Sales growth coupled with slight increase in EBITDA margin resulted in PAT growth
<b>Key Metrics</b>							
Plastic	476.4	497.4	375.4	26.9	463.6	2.8	Sharp growth in piping revenue is largely attributable to consolidation of revenue of Rex Polyextrusion. However, standalone volume growth was muted at ~4% YoY due to lower offtake in the PVC piping segment
Adhesive	157.3	166.2	136.9	14.9	165.6	-5.0	Adhesive segment sales growth was largely driven by overseas subsidiary SEAL IT (up 36% YoY) but sales from Resinova (domestic business) were up ~7% YoY

Source: Company, ICICI Direct Research,

### Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,296.0	3201.2	(2.9)	3,926.0	3712.9	(5.4)	Despite lower-than-expected growth in the revenue of standalone business during current quarter, we model consolidated revenue CAGR of 21% in FY18-21E. We model revenue CAGR of ~21% for both piping (including Rex) and adhesive segment for FY18-21E, respectively
EBITDA	512.7	491.9	(4.1)	622.2	597.5	(4.0)	
EBITDA Margin %	15.6	15.4	-19bps	15.8	16.1	24bps	Margin may remain elevated supported by higher utilisation of newly commenced plants, backward integration of raw material and increase in profitability of adhesive segment
PAT	276.3	267.3	(3.3)	348.4	349.1	0.2	
EPS (₹)	23.1	22.3	(3.2)	29.1	29.2	0.2	

Source: Company, ICICI Direct. Research

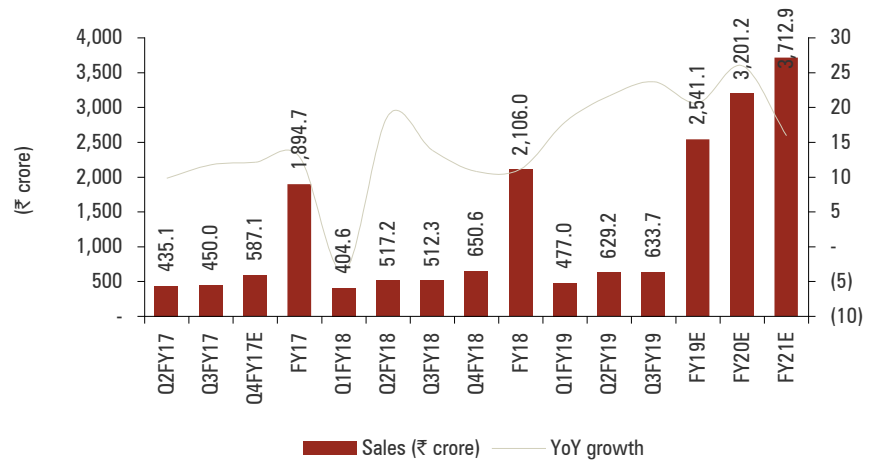
### Assumptions

	Current			Earlier		Comments	
	FY18	FY19E	FY20E	FY21E	FY19E		FY21E
Plastic Piping	-0.8	22.2	26.7	13.7	28.0	17.8	Piping segment revenue CAGR of 21% in FY18-21E would be largely driven by ~18% volume growth during the same period (including Rex)
Adhesive	4.5	16.4	21.9	23.4	21.9	23.4	Doubling the capacity coupled with strong branding of adhesive & sealant segment would lead strong segment revenue CAGR of 21% in FY18-21E

Source: Company, ICICI Direct. Research

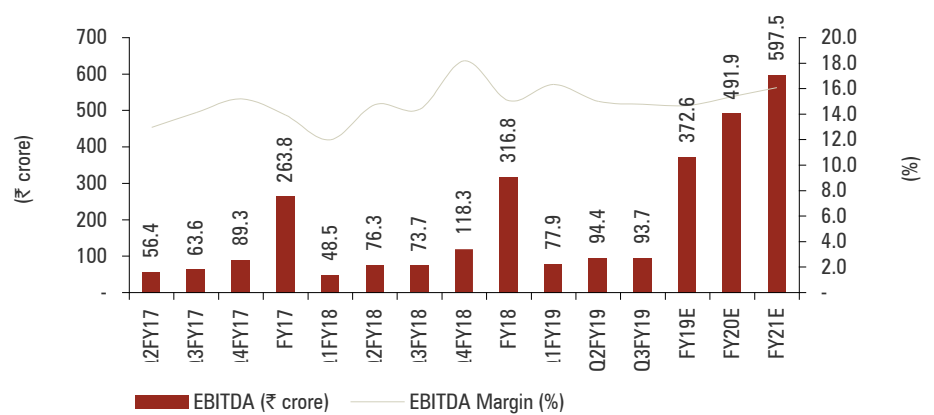
## Company Analysis

**Exhibit 1: Quarterly net sales trend**



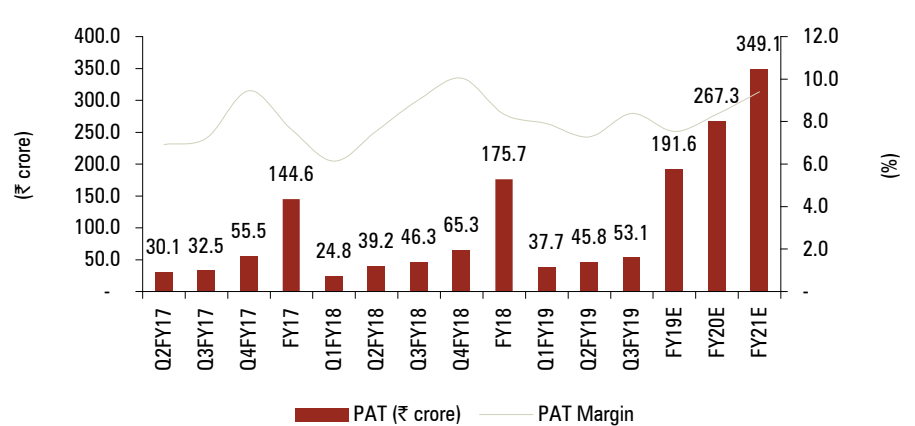
Source: Company, ICICI Direct Research

**Exhibit 2: EBITDA and EBITDA margin movement**



Source: Company, ICICI Direct. Research

**Exhibit 3: PAT and PAT margin movement**



Source: Company, ICICI Direct Research

## Conference call key takeaways

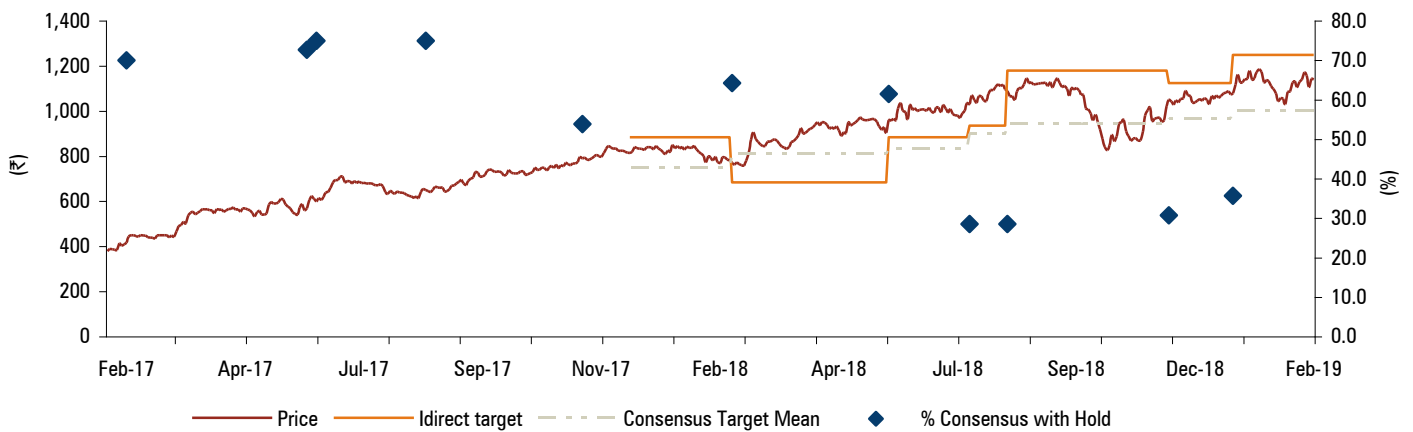
### Piping segment

- Tepid volume growth (~4% YoY) in the piping segment was attributable to liquidity crunch in the NBFC industry and lower inventory build-up due to systemic correction (improvement in billing system and implementation of channel financing)
- Realisation increased ~8% YoY owing to a price hike mainly to offset higher raw material cost and currency depreciation in CPVC
- Expansion plan in Jaipur, Hosur and Santej is complete while CPVC and PVC products will roll out from these plant from Q4FY19 onwards
- Rex has recorded sales of ₹ 48 crore during Q3FY19 with EBITDA margin of 5.2%. The management has guided for further improvement in EBITDA margin (to reach double digit) in Q4FY19
- The company has current pipe (standalone) manufacturing capacity of 1.7 lakh tonnes. It plans to add ~50000-55000 tonnes of capacity in FY20E
- The company has guided that there may be a delay in commissioning of a new plant in the eastern region
- In the piping segment, the company expects revenue to grow ~15% led by volume with ~15% EBITDA margin. The growth in the piping business would largely be on the back of capacity addition and launch of new products

### Adhesive segment

- During Q3FY19, adhesive segment revenue increased ~15% YoY led by 36% YoY increase in revenue from SEAL IT and 7% YoY increase in revenue from Resinova
- EBITDA margin of the adhesive segment declined ~430 bps YoY to 10.8%. The sharp decline in EBITDA margin was attributable to lower gross margin (down 150 bps YoY) and a sharp increase in advertisement expenses to ₹ 7.2 crore in Q3FY19 compared to ₹ 2.5 crore in Q3FY18
- APTL expects revenue growth of ~20% in the adhesive segment with EBITDA margin of ~13-14% in FY19E-20E

### Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research

### Key events

Date	Event
Feb-14	Commences operations at Hosur plant (Tamil Nadu)
Aug-14	Acquires controlling stake (80%) in UK based Seal It Services Ltd
Nov-14	Acquires 76% Stake in Resinova Chemie Ltd
Nov-15	Completes acquisition of balance 24% of equity share capital of Resinova Chemie Ltd from Vijay Parikh at a consideration of ₹ 73 crore. Accordingly, Resinova Chemie becomes wholly owned subsidiary of Astral Poly
Feb-16	Receives approval from court on the scheme of Amalgamation of Resinova Chemie Limited with Advanced Adhesives Limited has come into effect from Feb'16
Apr-16	To set up a new CPVC/PVC manufacturing unit, company purchased land in Rajasthan
Aug-16	Joins hands with SEKISUI Chemical Co Ltd. Launched its own brand Astral CPVC PRO
Oct-16	Discontinuance of raw material sourcing tie up agreement with Lubrizol
Jul-18	Acquires controlling stake in Rex Polyextrusion Pvt Ltd, an India based corrugated and other plastic pipe manufacture

Source: Company, ICICI Direct Research

### Top 10 Shareholders

Rank	Name	Last filing date	%O/S	Position (m)	Change (m)
1	Engineer (Sandeep Pravinbhai)	31-Dec-18	31.6	37.8	0.0
2	Saumya Polymers, L.L.P.	31-Dec-18	12.3	14.8	0.0
3	IIFL Inc	31-Dec-18	8.5	10.2	0.0
4	Engineer (Jagruti Sandeep)	31-Dec-18	7.6	9.1	0.0
5	Specialty Process, L.L.C.	31-Dec-18	5.0	6.0	0.0
6	UTI Asset Management Co. Ltd.	30-Sep-18	2.9	3.5	1.3
7	Axis Asset Management Company Limited	30-Sep-18	2.7	3.2	0.8
8	Tree Line Advisors (Hong Kong) Ltd	31-Dec-18	2.4	2.8	0.0
9	DF International Partners	31-Dec-18	2.3	2.7	0.0
10	Kairav Chemical Pvt. Ltd.	31-Dec-18	2.0	2.4	0.0

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	58.5	58.5	58.5	58.5	58.5
FII	19.8	22.9	20.4	20.8	21.1
DII	6.2	6.6	6.7	6.4	6.0
Others	15.5	12.0	14.4	14.3	14.4

### Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
UTI Asset Management Co. Ltd.	17.7	1.3	IDFC Asset Management Company Private Limited	-7.5	-0.6
Axis Asset Management Company Limited	10.7	0.8	Amundi Hong Kong Limited	-1.2	-0.1
BlackRock Institutional Trust Company, N.A.	3.5	0.2	Alquity Investment Management Ltd.	-0.6	0.0
Nuveen LLC	0.2	0.0	Aditya Birla Sun Life AMC Limited	-0.3	0.0
Kotak Mahindra (UK) Ltd	0.1	0.0	William Blair Investment Management, LLC	-0.1	0.0

Source: Reuters, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ Crore			
Year end March	FY18	FY19E	FY20E	FY21E	
Net Sales	2106.0	2541.1	3201.2	3712.9	
YoY (%)		20.7	26.0	16.0	
Other income	12.7	15.1	21.0	22.5	
Total Revenue	2118.7	2556.2	3222.2	3735.4	
Expenditure					
Cons of raw material	1338.0	1633.3	2040.5	2370.2	
Pur. of traded goods	45.4	36.1	39.2	50.2	
Employee cost	106.5	143.4	185.0	212.3	
Other expenses	299.4	355.7	444.7	482.7	
Total expenses	1789.2	2168.5	2709.4	3115.4	
EBITDA	316.8	372.6	491.9	597.5	
YoY (%)		17.6	32.0	21.5	
Interest	21.6	31.8	41.5	29.5	
PBDT	307.9	355.9	471.4	590.5	
Depreciation	57.1	71.2	87.1	102.5	
Profit before tax	250.8	284.8	384.3	488.0	
Total Tax	72.5	90.5	114.3	136.2	
PAT before MI	178.3	194.3	270.0	351.8	
Exc. Items	-2.7	-2.7	-2.7	-2.7	
PAT	175.7	191.6	267.3	349.1	
YoY (%)		9.1	39.5	30.6	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
Year end March	FY18	FY19E	FY20E	FY21E	
Equity Capital	12.0	12.0	12.0	12.0	
Reserve and Surplus	1006.3	1262.4	1515.3	1838.4	
Total Shareholders funds	1018.3	1274.4	1527.3	1850.4	
Total Debt	123.0	133.0	153.0	83.0	
Other Non Current Liabilities	93.1	95.1	97.1	99.1	
Total Liability	1187.9	1455.0	1728.8	1983.0	
Fixed Assets					
Gross Block	894.6	974.6	1074.6	1154.6	
Accumulated Depreciation	286.8	358.0	445.1	547.5	
Net Block	607.8	616.6	629.5	607.1	
Capital WIP	73.1	73.1	73.1	73.1	
Total Fixed Assets	680.9	689.7	702.7	680.2	
Goodwill on Consolidation	234.7	234.7	284.7	334.7	
Current Assets					
Inventory	357.2	403.8	543.8	661.2	
Debtors	306.7	487.3	613.9	712.1	
Loans and Advances	0.3	2.3	2.9	3.3	
Other Current Assets	35.1	57.8	72.8	92.8	
Cash	43.7	29.0	29.2	79.7	
Total Current Assets	743.0	980.2	1262.6	1549.1	
Current Liabilities					
Creditors	349.1	362.0	438.5	508.6	
Provisions	3.4	2.6	3.1	3.6	
Other current liabilities	134.9	101.6	96.0	85.4	
Total Current Liabilities	487.3	466.3	537.7	597.6	
Net Current Assets	255.7	514.0	724.9	951.5	
Deferred Tax Assets	0.1	0.1	0.1	0.1	
Total Asset	1187.9	1455.0	1728.8	1983.0	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
Year end March	FY18	FY19E	FY20E	FY21E	
Profit/(Loss) after taxation	175.7	191.6	267.3	349.1	
Add: Depreciation & Amortization	57.1	71.2	87.1	102.5	
Add: Interest Paid	21.6	31.8	41.5	29.5	
C/F bef working capital chg.	254.4	294.5	395.8	481.1	
Net Increase in Current Assets	-45.7	-251.9	-282.2	-236.1	
Net Increase in Current Liabilities	73.5	-21.0	71.4	59.9	
Net CF from operating act	282.2	21.6	185.1	305.0	
(Inc)/Dec in Goodwill on Cons					
(Purchase)/Sale of Fixed Assets	-203.9	-80.0	-100.0	-80.0	
Others	7.8	1.0	1.0	1.0	
Net Cf from Investing Act	-191.4	-79.0	-149.0	-129.0	
Pro/(Rept) of/from Loan					
(Payment) of Div & Div Tax	-5.1	-2.9	-14.4	-26.0	
Others	-20.7	35.6	-41.5	-29.5	
Net Cf from Financing Act	-65.2	42.7	-35.9	-125.5	
Net Cash flow					
Cash and Cash Equi at the beg	18.1	43.7	29.0	29.2	
Cash and Cash Equi at the end	43.7	29.0	29.2	79.7	

Source: Company, ICICI Direct Research

Key ratios		FY18	FY19E	FY20E	FY21E
Per share Data					
EPS		14.7	16.0	22.3	29.2
Cash EPS		19.4	21.9	29.6	37.7
Dividend per share		0.4	0.2	1.2	2.2
BV per share		85.0	106.4	127.5	154.5
Profitability Ratio					
EBITDA margin		15.0	14.7	15.4	16.1
PAT margin		8.3	7.5	8.4	9.4
Return Ratios					
RoCE		22.9	21.8	24.6	26.1
RoNW		17.2	15.0	17.5	18.9
RoIC		27.2	25.1	28.5	31.6
Valuation Ratios					
P/E		78.3	71.7	51.4	39.4
EV / EBITDA		43.6	37.2	28.2	23.0
Market Cap / Sales		6.5	5.4	4.3	3.7
Price to Book Value		13.5	10.8	9.0	7.4
Activity Ratios					
Inventory Days		61.9	58.0	62.0	65.0
Debtor Days		53.2	70.0	70.0	70.0
Creditor Days		60.5	52.0	50.0	50.0
Gross Block Turnover		2.4	2.6	3.0	3.2
Solvency Ratio					
Debt / Equity		0.1	0.1	0.1	0.0
Debt / EBITDA		0.4	0.4	0.3	0.1
Current Ratio		2.0	2.6	2.8	2.9
Quick Ratio		1.0	1.5	1.6	1.6

Source: Company, ICICI Direct Research

## ICICI Direct Research coverage universe (Consumable)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,450	1,600	Buy	139,055	21.9	24.3	28.7	66.3	59.6	55.8	41.6	35.4	30.1	31.6	32.6	34.1	24.4	24.8	25.5
Astral Polytechnik (ASTPOL)	1,148	1,250	Hold	13,747	14.7	16.0	22.3	78.3	71.7	51.4	43.6	37.2	28.2	22.9	21.8	24.6	17.2	15.0	17.5
Bajaj Electricals (BAJELE)	465	545	Hold	4,745	8.2	20.4	22.2	56.7	22.8	21.0	19.8	14.0	13.0	18.1	18.5	18.3	13.7	19.7	18.2
Havells India (HAVIND)	710	800	Buy	44,297	11.4	13.4	17.2	62.2	53.0	41.3	42.1	35.4	27.2	25.2	29.2	31.1	18.8	21.4	22.7
Kansai Nerolac (KANNER)	456	480	Buy	24,575	9.6	8.8	10.8	47.6	52.0	42.4	29.2	30.2	24.5	24.5	22.0	24.2	16.5	14.7	16.2
Pidilite Industries (PIDIND)	1,132	1,250	Buy	58,031	18.8	18.5	22.0	60.1	61.2	51.4	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	107	120	Hold	3,362	5.5	5.8	6.7	19.3	18.5	15.9	8.9	8.3	7.2	18.0	17.4	19.3	15.2	14.6	15.8
Supreme Indus (SUPIND)	990	1,150	Buy	12,576	33.9	34.4	39.8	29.2	28.8	24.9	16.3	15.8	13.6	27.9	26.1	27.9	22.7	19.5	21.4
Symphony (SYMLIM)	1,177	1,110	Hold	8,234	27.5	18.8	25.9	42.8	62.6	45.5	37.7	52.5	35.2	41.3	25.5	34.5	31.5	22.6	29.9
V-Guard Ind (VGUARD)	194	205	Hold	8,258	3.1	3.3	4.2	61.9	58.5	46.2	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	522	560	Hold	17,264	17.5	17.3	21.8	29.9	30.2	23.9	27.2	24.3	19.3	19.8	21.9	23.6	14.8	16.0	17.7
Time Techno (TIMTEC)	78	125	Hold	1,764	8.0	8.0	11.1	9.8	9.8	7.0	6.8	6.7	5.4	14.9	13.7	16.2	12.2	11.2	13.6

Source: Company, ICICI Direct Research

## **RATING RATIONALE**

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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## ANALYST CERTIFICATION

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