Astral Poly Technik

Buy

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

One off events impact profitability. Story remains intact. Maintain BUY.
Astral Poly Technik (ASTRA) Q4FY19 results were lower than our estimates on profitability parameters. The profitability was impacted, due to one-off events, such as inventory loss (in both divisions – pipe and adhesive) and the Rex acquisition. We believe that inventory losses will be reversed to a large extent, as PVC prices have trended upward in 1QFY20. As the Rex acquisition cost is already reflected in the balance sheet, profitability should improve from the current level. The piping volume grew 23% YoY in Q4FY19, however, realizations were flat. ASTRA did not adopt the price cutting strategies of the other large players to gain volume. The adhesive segment was also impacted by the macro slowdown and high branding cost.

We believe that ASTRA is in the investment phase and will reap long-term benefits of these strategies for the next five years. ASTRA is further increasing capacity, distribution reach, and branding initiatives. Given new product addition in the adhesive segment as well as the pipe segment, we believe that revenue growth and margin profile should get better. As the company has a high growth trajectory and expansion in return ratios, valuations will remain expensive. We reiterate Buy, with a target price of ₹ 1,447 (48x FY21E)

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 Q4FY19, the piping segment growth was 23% YoY and 39.4% QoQ. The newly acquired Rex Polyextrusion have also started contributing to volume growth. As the government is likely to focus on the real estate sector, new schemes are likely to grow manifold. The margin trajectory in Rex should improve considerably as ASTRA has a lower finance cost and higher efficiencies. ASTRA's piping volume growth is likely to be 15% in FY20 and we expect Rex Polyextrusion to grow 25%. The investments in the brand has enabled ASTRA to maintain premium pricing and protect margins.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	7,747	6,388	21.3	6,302	22.9
Total Expense	6,558	5,205	26.0	5,365	22.2
EBITDA	1,190	1,183	0.5	937	27.0
Depreciation	224	152	47.3	221	1.5
EBIT	966	1,031	(6.4)	716	34.9
Other Income	38	23	69.9	32	20.8
Interest	59	91	(34.7)	8	630.9
EBT	945	963	(1.9)	740	27.7
Tax	292	300	(2.7)	226	29.1
RPAT	653	664	(1.5)	514	27.1
APAT	625	653	(4.4)	521	19.8
			(bps)		(bps)
Gross Margin (%)	33.6	34.4	(79)	33.6	(1)
EBITDA Margin (%)	15.4	18.5	(317)	14.9	49
NPM (%)	8.1	10.2	(216)	8.3	(21)
Tax Rate (%)	30.9	31.1	(25)	30.5	33
EBIT Margin (%)	12.5	16.1	(368)	11.4	110

CMP	₹ 1,200
Target / Upside	₹ 1,447 / 21%
BSE Sensex	38,897
NSE Nifty	11,657

Scrip Details

Equity / FV	₹ 120mn / ₹ 1
Market Cap	₹ 144bn
	US$ 2bn
52-week High/Low	₹ 1,295/₹ 825
Avg. Volume (no)	67,174
NSE Symbol	ASTRAL
Bloomberg Code	ASTRA IN

Shareholding Pattern Mar'19(%)

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

Valuation (x)

	FY19A	FY20E	FY21E
P/E	72.8	50.1	40.1
EV/EBITDA	37.6	27.6	22.4
ROE (%)	17.2	19.8	20.3
RoACE (%)	22.9	25.5	25.9

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	25,073	33,701	40,625
EBITDA	3,849	5,085	6,162
PAT	1,973	2,870	3,585
EPS (₹)	16.5	24.0	29.9

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DOLAT CAPITAL

Adhesive segment – affected by inventory losses and branding. Benefits to accrue.
The adhesive segment was also impacted by the slowdown in the overall market. The launch of the nationwide advertising campaign for Resiquick increased the cost in this segment. We expect this to return to normal levels in the next few quarters. We believe that this is a cycle and ASTRA will reap long-term benefits of the advertising campaigns, as Resiquick has one of the highest margins across all its product offerings. Getting products (Rescuetape) to Indian markets from SEAL IT US is also a long-term positive. The adhesives business is likely to revert to normal growth levels (greater than 20%) over next two quarters.

Capacity expansion – reducing freight cost
ASTRA is expanding its capacity across plants to capitalize on the upcoming demand in the piping and the adhesive segments. Pipe products are heavy by weight and entail a high logistics cost. To save on logistics cost, the company has built a centralized warehouse in the South. ASTRA now has plants across regions, including East India, which will be ready by July 2020. We believe that having plants across India will provide logistic advantage to ASTRA in the long run. In the adhesive segment, ASTRA will acquire all the products from SEAL IT and this will ensure higher revenue growth, with a higher margin profile.

Valuation – will remain expensive
ASTRA has been a multi-year compounding story and we expect the trend to continue. The additions in the product portfolio in both segments – pipe and adhesive— will augment growth, with an expanding margin profile. ASTRA's management strategy is to pursue profitable volumes, which is likely to ensure margin protection and keep the balance sheet strong. Despite the very high valuations, we believe that ASTRA stock performance will continue to be driven by profitability growth. We rollover our valuations to FY21E earnings, and reiterate Buy with a target price of ₹ 1,447.

Key Highlights (Standalone)

- The net sales increased by 22.6% on a YoY basis and by 24% on QoQ basis to ₹ 6,056 mn.
- The raw material cost increased by 21.2% on a YoY basis and by 23% on a QoQ basis to ₹ 4,079 mn.
- The other expenditure increased by 47.7% on a YoY basis and by 47.8% on a QoQ to ₹ 837 mn.
- The depreciation increased 1% sequentially to ₹ 186 mn.
- The interest cost decreased on a YoY basis to ₹ 43 mn in FY19.
- On a YoY basis, net profit has increased by 7.3% to ₹ 469 mn in the quarter.

Key Highlights (Consolidated)

- The net sales increased by 21.3% on a YoY basis and by 22.9% QoQ basis to to ₹ 7,747 mn in the quarter.
- The raw material cost increased by 22.7% on a YoY basis and by 23% on a QoQ basis to ₹ 5,147 mn.
- The other expenditure increased by 46.1% on a YoY basis and by 32.4% on a QoQ basis to ₹ 1,050 mn.
- The depreciation increased by 1.5% sequentially to ₹ 224 mn.
- The interest cost decreased to ₹ 59 mn QoQ in Q4FY19.
- On a YoY basis, there was a de-growth in net profit by 4.4% to ₹ 625 mn. It was a growth of 19.8% QoQ.

Analyst Meet KTA's

Ghiloth plant:

- This plant started operations in FY18. It is state of the art plant.
- This plant manufactures CPVC and PVC products, and serves the north market, part of Rajasthan, Bihar, Jharkhand, East UP, and the Kolkata depot.
- This plant also manufactures corrugated pipes.
- This plant, which includes land and building, can be expanded to meet capacity for next five years, without additional land or building. Already 3-4x additional capacity is in this plant.

Santej plant:

- This is Astral's flagship plant and underwent expansion. It underwent bottlenecking of injection molding plant.
- The company added 5-6 big injection molding machines. Also added was CPVC capacity.
- It has a centralized clean water plant at Santej.
- CPVC has been completely moved to Santej.
- It has imported machinery from Italy at this plant for automisation of packaging of fittings. This year 100% automisation will take place.
- Printing on CPVC pipes to avoid duplication will be introduced in FY20. This technology is made by only one company globally and Astral is importing this technology.
- Astral bought 10 acres of land, work for which will start this year and will be completed by next year.
- Setting up R&D and application center. The application center will train plumbers and teach them to use products.

Dholka plant:

- Astral is starting to build new unit of valves, and will bring number of valves from plumbing (high diameter, industrial applications).
- This will be completed next year.
- Valves have good revenues and high margins.

South - Hosur Plant:

- Plant building is ready but not operational.
- This plant has complete range of column pipes.
- Will add capacity in PVC- Agri pipes and drainage pipes.
- The company is building a huge centralized warehouse in South. All products will be available in this warehouse.

East expansion:

- Recently bought land in Orissa near Cuttack.
- The company will start construction in next 2-3 months and will be operational by May 2020.

Rex Polyextrusion:

- Acquired Rex polyextrusion in July 2018 for their double wall corrugated pipes.
- Orderbook is full for next 4-5 months.
- Globally, DWC market is bigger than paint industry, which is at a nascent stage in India.
- Rex will see sharp improvement in EBITDA margin to approx. 14% in FY20, as against 9% in FY19.
- Rex volumes post its acquisition is 10,462 MT.

Corrugators:

- Astral have ordered 3 corrugators.
- 1 corrugator is added to Sitarganj plant. They are the sole suppliers for Char Dham project for roads.
- 1 corrugator has reached Ghiloth Plant one week ago.
- 1 corrugator is on its way and will reach Hosur Plant.

Pex:

- Pex was launched six months ago.
- Average sales is ₹ 60 lakhs.
- Pipes are brought from Europe and fittings are made in India .

- Kenya operations are showing positive results from last two quarters.
- Core Astral volume growth was 14%. Rest was Rex. Total growth was 21.1% YoY.
- After Lubrizol's exit, the company dropped CPVC products prices by 15-20%.

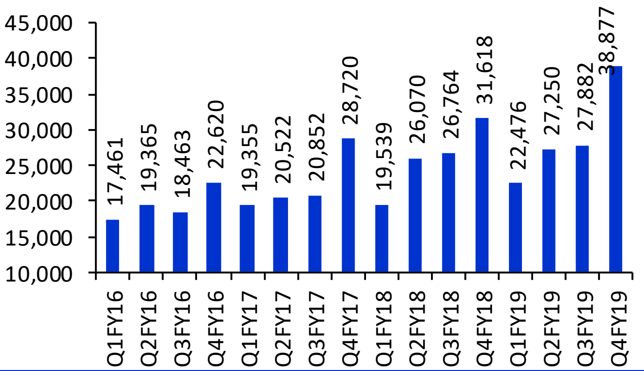
Adhesive business:

- Due to branding exercise undertaken cost has gone up.
- This year will curtail those expenses. Ad spend will be stable in FY20.
- Added new products and capacities have gone up.
- Have put up a R&D center, which is up and running.
- Have done maximum capex required. Maximum investments are done.
- This business can give a turnover of ₹ 1,500 cr with this capacity.
- UK operations have done exceptionally well. Revenues have grown, margins have improved and will come back to normal and give excellent results this year.
- US business had its own challenges of acquisition, machine addition. Operations have now stabilized and generating positive EBITDA.
- 1 container of Rescuetape, which was brought to India showed very good response and got sold in 15 days. Two more containers are coming.
- This business can see subdued numbers for 2-3 quarters.

Capex and Guidance:

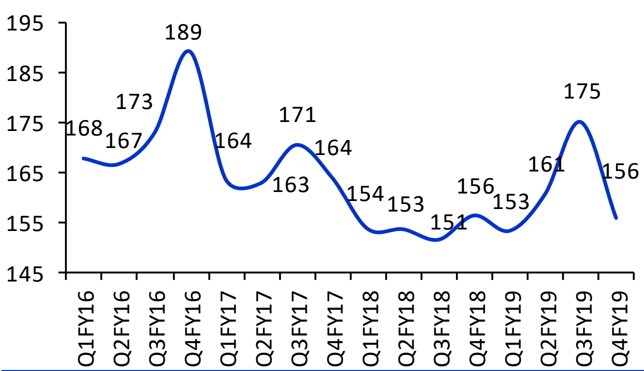
- Capex for FY20 will be ₹ 100-150 cr. Which will be 100% funded by internal accruals.
- Capacity addition will take place in next 3-4 months and the East plant will be ready by next year. After that there will be a slowdown in capex.
- Piping volume will grow at 15% (excluding Rex), Rex volumes could grow 25%.
- Full year growth is expected to be 20%. However, growth for first half will be around 15%.
- EBITDA margin will be in the range of 15-18% for pipes.
- Receivable days have gone down from 50 to 35 days.

Exhibit 1: Volume (MT)



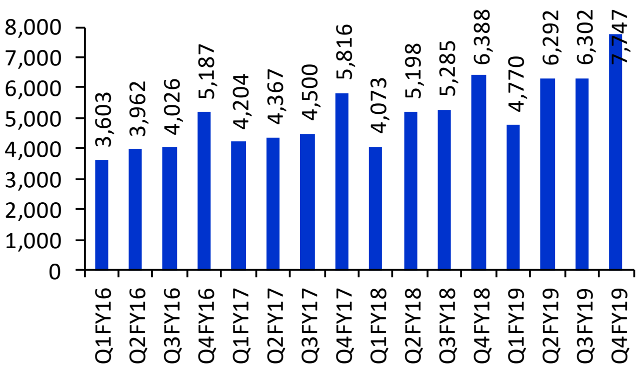
Source: Company, DART

Exhibit 2: Blended Realisation (₹/kg)



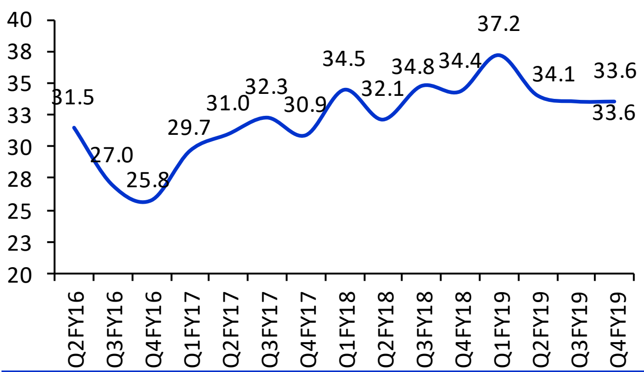
Source: Company, DART

Exhibit 3: Revenue (₹ Mn)



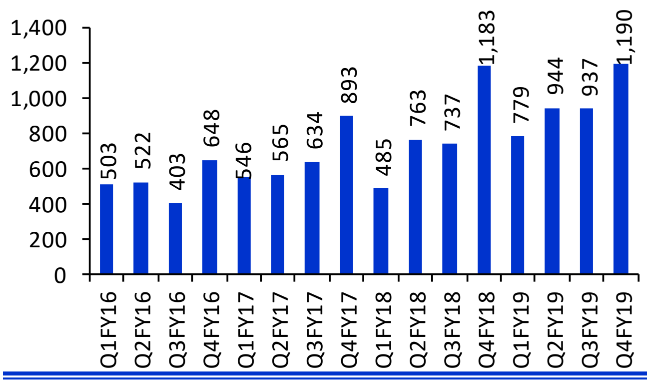
Source: Company, DART

Exhibit 4: Gross Margin (%)



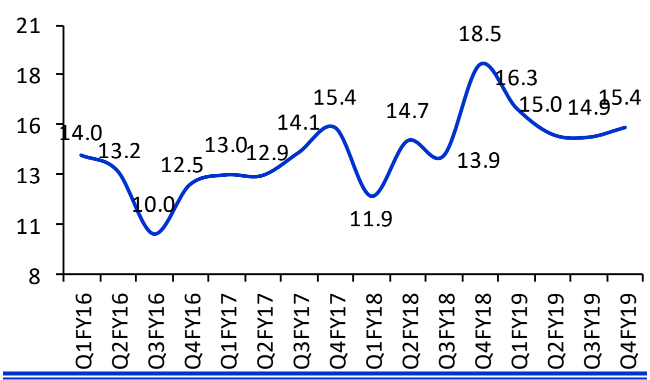
Source: Company, DART

Exhibit 5: Operating Profit (₹ Mn)



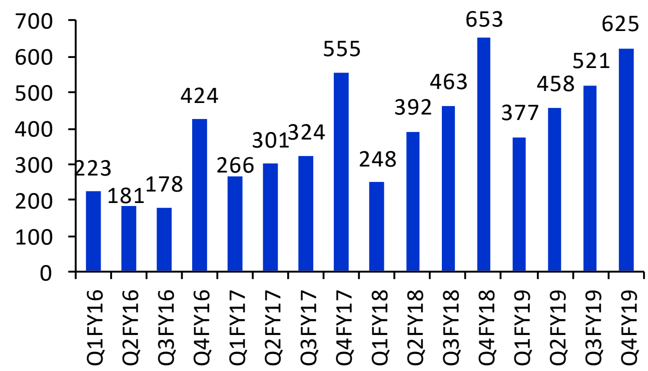
Source: Company, DART

Exhibit 6: OPM (%)



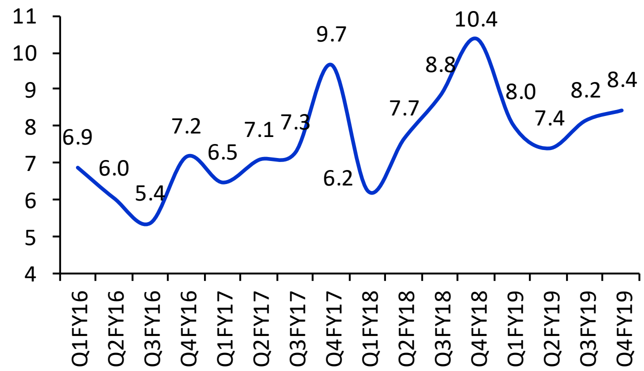
Source: Company, DART

Exhibit 7: Net Profit (₹ Mn)



Source: Company, DART

Exhibit 8: NPM (%)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	**21,060**	**25,073**	**33,701**	**40,625**
Total Expense	**17,892**	**21,224**	**28,616**	**34,463**
COGS	13,834	16,477	23,590	28,355
Employees Cost	1,065	1,391	1,300	1,571
Other expenses	2,994	3,355	3,726	4,538
EBIDTA	**3,168**	**3,849**	**5,085**	**6,162**
Depreciation	571	814	777	842
EBIT	**2,597**	**3,035**	**4,308**	**5,320**
Interest	216	320	488	547
Other Income	127	154	143	154
Exc. / E.O. items	0	0	20	20
EBT	**2,508**	**2,870**	**3,983**	**4,948**
Tax	724	861	1,057	1,293
RPAT	1,757	1,973	2,870	3,585
Minority Interest	0	0	56	70
Profit/Loss share of associates	**(27)**	**(36)**	**0**	**0**
APAT	**1,757**	**1,973**	**2,870**	**3,585**

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	120	120	120	120
Minority Interest	135	150	380	450
Reserves & Surplus	10,063	12,657	16,107	18,913
Net Worth	**10,182**	**12,777**	**16,227**	**19,033**
Total Debt	1,891	1,935	2,918	3,098
Net Deferred Tax Liability	267	533	58	60
Total Capital Employed	**12,475**	**15,394**	**19,583**	**22,641**
Applications of Funds				
Net Block	**6,077**	**8,517**	**5,159**	**5,157**
CWIP	3,079	3,346	2,942	2,983
Investments	0	2	0	0
Current Assets, Loans & Advances	**7,531**	**9,128**	**16,512**	**20,480**
Inventories	3,572	3,958	4,815	5,791
Receivables	3,067	3,391	3,610	4,342
Cash and Bank Balances	437	981	6,514	8,668
Loans and Advances	149	515	1,331	1,437
Other Current Assets	306	283	242	243
Less: Current Liabilities & Provisions	**4,212**	**5,598**	**5,028**	**5,980**
Payables	3,491	3,897	3,660	3,660
Other Current Liabilities	721	1,700	1,368	2,320
Net Current Assets	3,319	3,532	11,483	14,500
Total Assets	**12,475**	**15,396**	**19,583**	**22,641**

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	34.3	34.3	30.0	30.2
EBIDTA Margin	15.0	15.4	15.1	15.2
EBIT Margin	12.3	12.1	12.8	13.1
Tax rate	28.9	30.0	26.5	26.1
Net Profit Margin	8.3	7.9	8.5	8.8
(B) As Percentage of Net Sales (%)				
COGS	65.7	65.7	70.0	69.8
Employee	5.1	5.5	3.9	3.9
Other	14.2	13.4	11.1	11.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	12.0	9.5	8.8	9.7
Inventory days	62	58	52	52
Debtors days	53	49	39	39
Average Cost of Debt	10.3	16.7	20.1	18.2
Payable days	60	57	40	33
Working Capital days	58	51	124	130
FA T/O	3.5	2.9	6.5	7.9
(D) Measures of Investment				
AEPS (₹)	14.7	16.5	24.0	29.9
CEPS (₹)	19.4	23.3	30.4	37.0
DPS (₹)	0.6	0.7	4.0	5.0
Dividend Payout (%)	4.1	4.2	16.7	16.7
BVPS (₹)	85.0	106.7	135.5	158.9
RoANW (%)	18.8	17.2	19.8	20.3
RoACE (%)	23.1	22.9	25.5	25.9
RoAIC (%)	22.6	22.9	31.4	39.3
(E) Valuation Ratios				
CMP (₹)	1200	1200	1200	1200
P/E	81.8	72.8	50.1	40.1
Mcap (₹ Mn)	1,43,720	1,43,720	1,43,720	1,43,720
MCap/ Sales	6.8	5.7	4.3	3.5
EV	1,45,175	1,44,672	1,40,125	1,38,151
EV/Sales	6.9	5.8	4.2	3.4
EV/EBITDA	45.8	37.6	27.6	22.4
P/BV	14.1	11.2	8.9	7.6
Dividend Yield (%)	0.1	0.1	0.3	0.4
(F) Growth Rate (%)				
Revenue	11.2	19.1	34.4	20.5
EBITDA	20.1	21.5	32.1	21.2
EBIT	21.6	16.9	42.0	23.5
PBT	23.3	14.4	38.8	24.2
APAT	21.5	12.3	45.4	24.9
EPS	21.5	12.3	45.4	24.9

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	2,818	7,588	2,504	3,612
CFI	(1,853)	(3,330)	3,093	(391)
CFF	(711)	(3,711)	(65)	(1,068)
FCFF	980	4,258	5,594	2,811
Opening Cash	180	435	981	6,514
Closing Cash	435	981	6,514	8,668

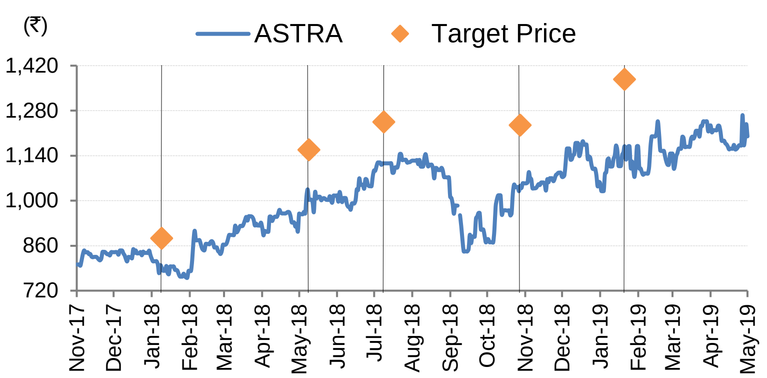
E – Estimates

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 (₹)
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
Feb-19	Accumulate	1,378	1,169

**Price as on recommendation date*

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