

Margins impacted due to RM volatility. Story remains intact. Maintain BUY

Astral Poly Technik (ASTRA) Q1FY20 numbers were in line with estimates on revenue and profitability parameters. Piping segment (including Rex) reported volume growth of 41.2% YoY and revenue growth of 37% YoY. Adhesive segment reported flattish growth due to few structural changes in Resinova, which will be corrected in current quarter and management has guided for double digit growth for FY20. Margins got impacted due to inventory losses of approx. ₹ 70-80 mn. We believe that inventory losses should get reversed to a large extent as PVC prices have witnessed an upward trend during on-going quarter. ASTRA is going through expansion at all its plants and is investing heavily in branding activities. We believe that these are investment phases and ASTRA will reap long term benefits of these strategies for prolonged periods atleast for the next 5 years. 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. Reiterate Buy with a target price of ₹ 1,487.

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 Q1FY20, piping segment growth was 41% YoY. Rex Polyextrusion contributed 2,973 MT out of the total sales volume of 31,729 MT. With government push and new schemes this segment will grow manifold. Margin trajectory in Rex should improve considerably as ASTRA brings in lower finance cost and higher efficiencies. ASTRA Piping volume growth is expected to be 15% in FY20 and Rex Polyextrusion is expected to grow at 25%. Investments in the brand has enabled ASTRA to maintain premium pricing and protect margins.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	6,066	4,770	27.2	7,747	(21.7)
Total Expense	5,135	3,991	28.7	6,558	(21.7)
EBITDA	931	779	19.5	1,190	(21.7)
Depreciation	244	161	51.9	224	9.0
EBIT	687	619	11.1	966	(28.9)
Other Income	68	39	75.3	38	77.1
Interest	73	117	(37.4)	59	23.3
EBT	682	541	11.1	945	(27.8)
Tax	202	157	28.8	292	(30.7)
RPAT	480	384	25.1	653	(26.5)
APAT	478	377	26.9	625	(23.5)
			(bps)		(bps)
Gross Margin (%)	36.1	37.2	(117)	33.6	249
EBITDA Margin (%)	15.3	16.3	(99)	15.4	(1)
NPM (%)	7.9	7.9	(2)	8.1	(18)
Tax Rate (%)	29.6	29.0	62	30.9	(124)
EBIT Margin (%)	11.3	13.0	(164)	12.5	(114)

CMP	₹ 1,219
Target / Upside	₹ 1,487 / 22%
BSE Sensex	37,146
NSE Nifty	10,997

Scrip Details

Equity / FV	₹ 120mn / ₹ 1
Market Cap	₹ 146bn
	US\$ 2bn
52-week High/Low	₹ 1,380/₹ 825
Avg. Volume (no)	51,542
NSE Symbol	ASTRAL
Bloomberg Code	ASTRA IN

Shareholding Pattern Jun'19(%)

Promoters	58.1
MF/Banks/FIs	6.1
FIIIs	22.7
Public / Others	13.1

Valuation (x)

	FY19A	FY20E	FY21E
P/E	74.0	51.9	41.3
EV/EBITDA	38.4	28.5	23.2
ROE (%)	17.2	19.5	20.2
RoACE (%)	22.2	24.3	26.2

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	25,073	33,701	40,625
EBITDA	3,849	5,085	6,162
PAT	1,973	2,815	3,538
EPS (₹)	16.5	23.5	29.5

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

Resinova business was flattish due to change in marketing strategies. Top management focus is on this segment, as this is the future growth engine for ASTRA. 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. Getting products (Rescuetape) to Indian markets from SEAL IT US is seen as a long term positive. Adhesives business is expected to revert to normalised growth levels (greater than 20%) over next 2 quarters.

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. To save on logistics cost they have set up a centralized warehouse in South. ASTRA now has plants across regions including East India which will be ready by next fiscal. 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. Reiterate Buy with a target price of ₹ 1,487.

Key Highlights (Standalone)

- Net sales increased by 37.2% on a YoY basis and decreased by 22% on QoQ basis to ₹ 4,725 mn.
- Raw material cost increased by 43.6% on a YoY basis and decreased by 23.3% on a QoQ basis to ₹ 3,129 mn.
- Other expenditure has increased by 17.6% on a YoY basis and decreased by 26.6% on a QoQ to ₹ 614 mn.
- Depreciation increased by 9.7% sequentially to ₹ 204 mn.
- Interest cost has decreased on a YoY basis to ₹ 60 mn
- On a YoY basis, net profit has increased by 38.2% to ₹ 341 mn.

*During FY19 'Rex Polyextrusion Private Limited' was amalgamated with Astral Poly with effect from July 10, 2018, hence results for Q1FY20 and Q1FY19 are not comparable to that extent.

- **Net Sales (w/o Rex) was at ₹ 4,325 mn (up 26% YoY). Rex revenue for Q1FY20 was ₹ 400 mn.**
- **Sales volume (w/o Rex) was at 28,756 MT (up 28% YoY). Rex volumes for Q1FY20 was 2,973 MT**

Key Highlights (Consolidated)

- Net sales increased by 27.2% on a YoY basis and decreased 21.7% QoQ basis to ₹ 6,066 mn.
- Raw material cost increased by 29.5% on a YoY basis and decreased by 24.6% on a QoQ basis to ₹ 3,879 mn.
- Other expenditure has increased by 19.4% on a YoY basis and decreased by 21.4% on a QoQ basis to ₹ 825 mn.
- Depreciation increased by 9% sequentially to ₹ 244 mn.
- Interest cost has decreased to ₹73 mn.
- On a YoY basis, there was a growth in net profit by 26.9% to ₹ 478 mn. It was a de-growth of 23.5% QoQ.

Conference Call Key Highlights

Piping Segment

- Ghiloth Plant- Expansion at Ghiloth plant is complete and is running at a capacity utilisation of 60%. Dispatches to North and East have started from this plant. One corrugator of 800 mm dia pipe is up and operational last month. Expansion is going on in this plant of other piping products like agri pipes, column pipes, fire sprinkler.
- Hosur Plant- Additional 5,000 MT capacity addition will be completed this quarter. One corrugator will arrive at this plant this month which will be operational this quarter. Also, they have a warehouse of 3,00,000 sq ft which is completed and ready to feed the entire South Market.
- Odisha Plant- Land approvals for this plant is complete and construction will begin this quarter. This plant will be completed next fiscal.
- Rex Poly- At Sitarganj, new corrugated pipe machine of 600 mm is up and operational. Rex faced few challenges as SAP was implemented for merger with Astral and there were few changes in orderbook from Rex to Astral. Few contracts were also revised. This resulted into an effective loss of sale of one month. Rex numbers are below expectations. Rex installed capacity is 28,000 MT.
- Management is confident about growing in Q2FY20 and Q3FY20 as new capacities added now will keep growing.
- Astral has also acquired land in Sangli, which will go through expansion this year and next year. This plant will then provide corrugated and other pipes to Central India.
- They are also getting projects for Pex. Pex has done sales of ₹ 10-15 lakhs per month.
- Fire Sprinklers are moving and growing at a good pace. This market is evolving.
- Piping segment growth was good due to good demand from agri pipes and major growth from CPVC pipes in infrastructure segment.

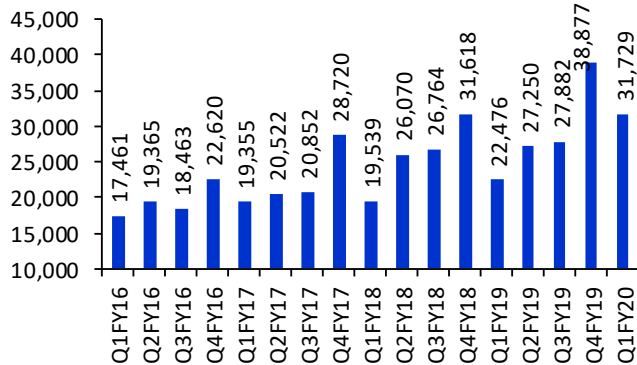
Adhesive Segment

- Resinova- Resinova is going through a structural change. They are moving from 3 tier to 2 tier marketing system which will eliminate Stockists who charge 6-8% margins). 2 tier structure will involve only Distributors and retailers. For this change in system, Astral will have to make little investments in depots from where they will directly supply to distributors. Most of the corrections are done. Few corrections are remaining which will be completed in Q2FY20 and thus good QoQ growth is expected from Q2. Resinova has shown flattish growth in Q1FY20
- Also parallel provisions are done for growth from other products. From Oct Resinova will report higher margins.
- Bond IT UK and USA- UK business has shown double digit growth of 10-12%. USA business is now settled and they are selling products in UK and rescutape in India which was a great success. 3 containers of rescutape was sold in 4 months and more containers are coming to India.
- Kenya Operations- Kenya business is doing great. Volumes are now growing and margins are expanding.

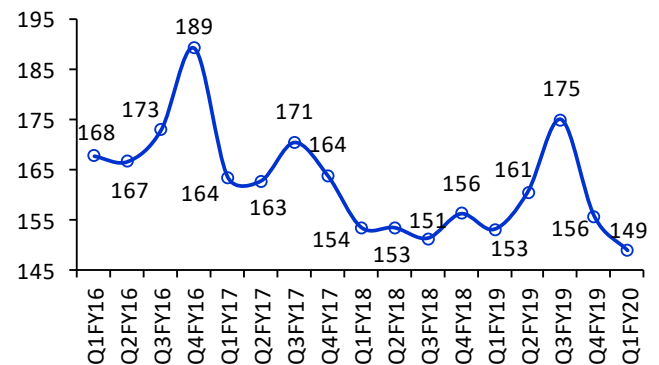
- Adhesive capacity utilisation is 37%.
- Full year guidance for adhesive business is double digit.

Financials

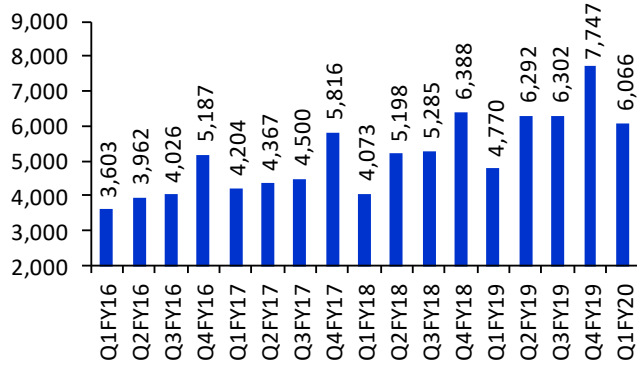
- There was a drop in margins due to raw material volatility. PVC prices dropped heavily in March and again dropped in April. There was an inventory loss of approx. ₹ 7-8 cr.
- Capex plans for FY20 is ₹ 1,250 mn-1,500 mn.
- Out of this capex, investments on adhesives will be minimal, major investments will take place on market expansions and branding activities.

Exhibit 1: Volume (MT)


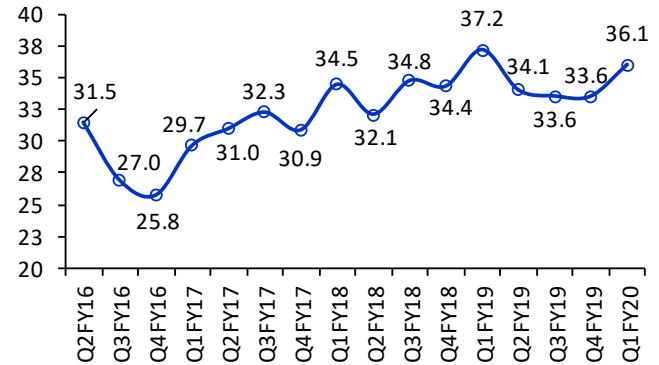
Source: Company, DART

Exhibit 2: Blended Realisation (₹/kg)


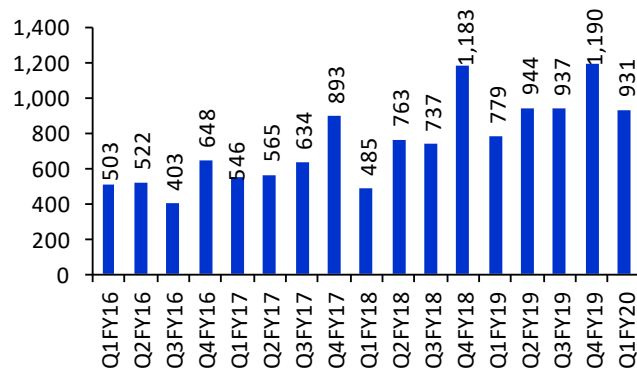
Source: Company, DART

Exhibit 3: Revenue (₹ Mn)


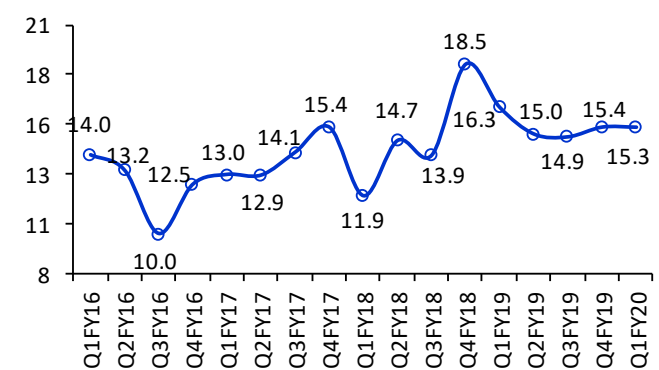
Source: Company, DART

Exhibit 4: Gross Margin (%)


Source: Company, DART

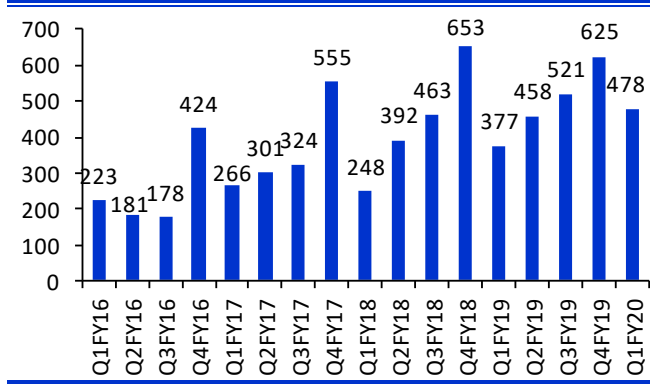
Exhibit 5: Operating Profit (₹ Mn)


Source: Company, DART

Exhibit 6: OPM (%)


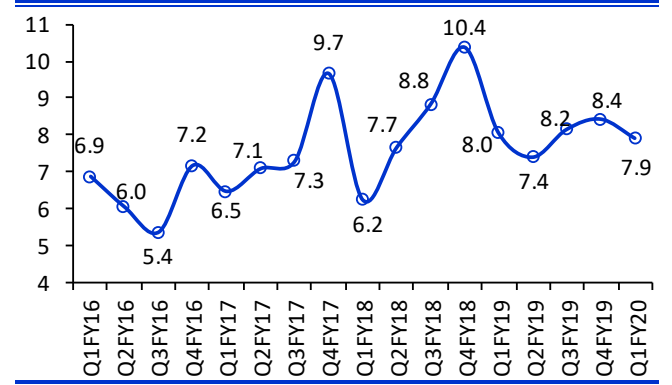
Source: Company, DART

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	1,001	1,065
EBIT	2,597	3,035	4,084	5,096
Interest	216	320	338	387
Other Income	127	154	143	154
Exc. / E.O. items	0	0	20	20
EBT	2,508	2,870	3,909	4,883
Tax	724	861	1,037	1,275
RPAT	1,757	1,973	2,815	3,538
Minority Interest	0	0	56	70
Profit/Loss share of associates	(27)	(36)	0	0
APAT	1,757	1,973	2,815	3,538

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	16,053	18,811
Net Worth	10,182	12,777	16,173	18,931
Total Debt	1,891	2,753	1,921	2,101
Net Deferred Tax Liability	267	533	58	60
Total Capital Employed	12,475	16,212	18,532	21,542

Applications of Funds

Net Block	6,077	8,517	7,345	7,119
CWIP	3,079	3,346	3,066	3,107
Investments	0	2	0	0
Current Assets, Loans & Advances	7,531	9,130	13,150	17,295
Inventories	3,572	3,958	4,815	5,791
Receivables	3,067	3,391	3,610	4,342
Cash and Bank Balances	437	981	3,152	5,483
Loans and Advances	149	515	1,330	1,437
Other Current Assets	306	283	242	243
Less: Current Liabilities & Provisions	4,212	4,780	5,028	5,980
Payables	3,491	3,897	3,660	3,660
Other Current Liabilities	721	882	1,368	2,320
Net Current Assets	3,319	4,350	8,121	11,315
Total Assets	12,475	16,212	18,532	21,542

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	12.1	12.5
Tax rate	28.9	30.0	26.5	26.1
Net Profit Margin	8.3	7.9	8.4	8.7
(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	0.1	0.1
Interest Coverage	12.0	9.5	12.1	13.2
Inventory days	62	58	52	52
Debtors days	53	49	39	39
Average Cost of Debt	10.3	13.8	14.5	19.3
Payable days	60	57	40	33
Working Capital days	58	63	88	102
FA T/O	3.5	2.9	4.6	5.7
(D) Measures of Investment				
AEPS (₹)	14.7	16.5	23.5	29.5
CEPS (₹)	19.4	23.3	31.9	38.4
DPS (₹)	0.6	0.7	4.0	5.0
Dividend Payout (%)	4.1	4.2	17.0	16.9
BVPS (₹)	85.0	106.7	135.0	158.1
RoANW (%)	18.8	17.2	19.5	20.2
RoACE (%)	23.1	22.2	24.3	26.2
RoAIC (%)	22.6	22.3	26.7	32.4
(E) Valuation Ratios				
CMP (₹)	1219	1219	1219	1219
P/E	83.1	74.0	51.9	41.3
Mcap (₹ Mn)	1,46,044	1,46,044	1,46,044	1,46,044
MCap/ Sales	6.9	5.8	4.3	3.6
EV	1,47,498	1,47,814	1,44,813	1,42,662
EV/Sales	7.0	5.9	4.3	3.5
EV/EBITDA	46.6	38.4	28.5	23.2
P/BV	14.3	11.4	9.0	7.7
Dividend Yield (%)	0.0	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	34.6	24.8
PBT	23.3	14.4	36.2	24.9
APAT	21.5	12.3	42.7	25.7
EPS	21.5	12.3	42.7	25.7
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	2,818	3,420	6,939	3,630
CFI	(1,853)	(2,934)	455	(391)
CFF	(711)	(49)	(1,730)	(908)
FCFF	980	1,224	7,390	2,828
Opening Cash	180	435	871	3,152
Closing Cash	435	871	3,152	5,483

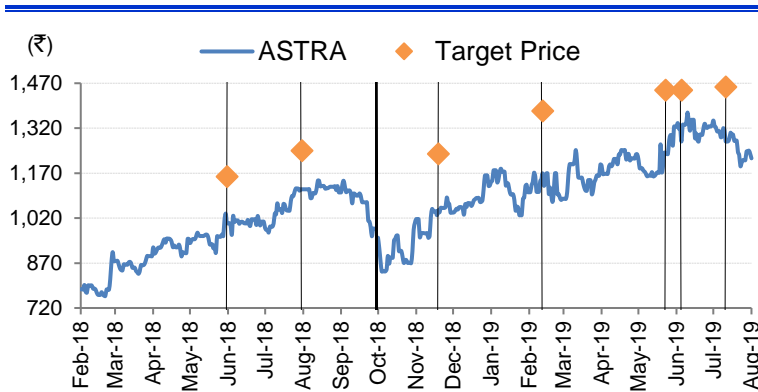
E – Estimates

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 (₹)
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
May-19	Buy	1,447	1,234
Jun-19	Buy	1,447	1,276
Jul-19	Buy	1,458	1,276

*Price as on recommendation date

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